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ABSTRACT

This booklet offers an in-depth analysis of the Clinton Administration budget and economic plan. The initial overview explains why the budget can be regarded as both a poverty-reduction and deficit-reduction budget. Chapter 2 offers detailed descriptions of the three main components of the plan--the deficit reduction measure (i.e., spending cuts and tax increases), a short-term stimulus package, and a long-term investment package. Chapters 3 through 6 describe the stimulus package, the investment package, spending cuts, and tax increases. Four ways in which the budget will reduce poverty are explained in chapter 7. The eighth chapter describes the minor changes proposed in existing budget rules and procedures. Chapter 9 concludes that 1993 will be a critical juncture in federal policymaking and that the opportunity to change direction in the manner proposed by the Clinton budget will probably disappear if not acted upon this year. Any alternative deficit-reduction routes are likely to generate less new revenue, less new public investment, and larger reductions in social programs. Five tables are included. The appendix contains three tables from the Clinton Administration's budget document. They concern: 5-year investment proposals; proposed changes in entitlement programs; and proposed reductions in nondefense discretionary programs. (LMI)

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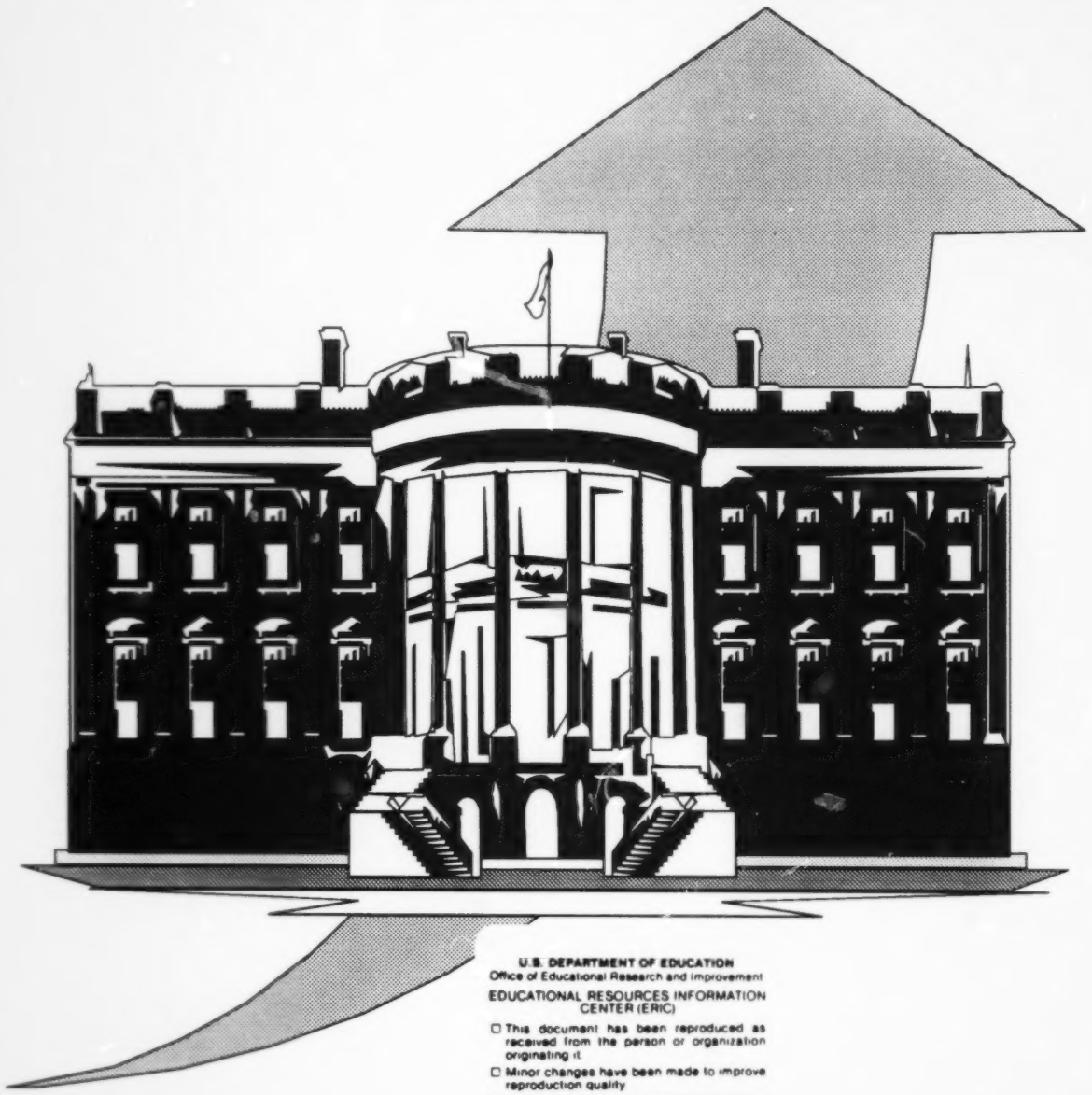
A New Direction

The Clinton Budget and Economic Plan



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A NEW DIRECTION

The Clinton Budget and Economic Plan

Robert Greenstein

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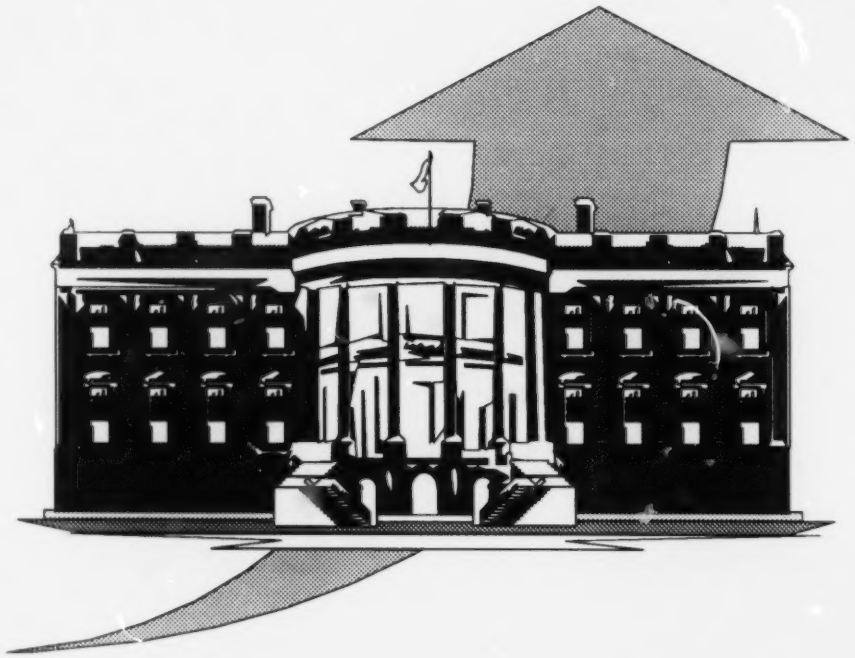

Center on Budget and Policy Priorities
Washington, D.C.

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I. Overview

Three large deficits threaten the nation's economic health and well-being:

- A massive budget deficit that soaks up private savings, leaving too little capital available for private investment in new plants, equipment, and other items that we need to make our economy more productive and competitive.

- A shortage of public — or government — investment in areas where such investments should be enhanced to make the economy more productive in the future, such as infrastructure, education and training, research and development, and effective "early intervention" programs for children.

- A social deficit that has been aggravated by the neglect of various domestic needs and has contributed to a poverty rate among children — the workers of tomorrow — that is double the rate in Canada and about five times the average rate in western Europe.

The first budget that President Ronald Reagan presented in 1981 had the effect of making all three of these deficits larger. Most subsequent budgets presented since then have proposed to reduce the budget deficit, but to do so in ways that would aggravate the investment deficit and the social deficit.

The budget unveiled February 17 by President Bill Clinton charts a very different course. It seeks simultaneously to reduce all three deficits.

Doing so requires making substantial reductions in lower-priority spending areas — particularly in areas where spending goes for consumption rather than investment — and also raising a substantial amount of new revenue. This is the path the Clinton budget follows; under it, about two of every three dollars saved from spending cuts and revenue increases are used for deficit reduction while one of every three dollars saved is used for new investment. As a result, the budget achieves substantial deficit reduction while also making sizable new investments to improve prospects for long-term growth and address unmet needs.

The budget is notable in a number of respects. If it is enacted and the Administration's deficit forecasts prove correct, the budget would reverse a 25-year pattern of rising deficits. In 1969, when Richard Nixon took office, the federal government ran a $3 billion surplus. Eight years later when Jimmy Carter took office, the deficit was $54 billion. It rose to $79 billion the year Ronald Reagan took office, nearly doubled in the next eight years, and stood at $152.5 billion in the year he left office. In the years of the Bush presidency, it more than doubled again, rising to over $300 billion in the current fiscal year. By contrast, under the Clinton Administration's estimates, which rely upon the economic forecasts of the Congressional Budget Office, the deficit will fall to $206 billion in fiscal year 1997 if the tax and spending changes in the budget are enacted.[1]

The budget is noteworthy as well in the manner in which its deficit reduction measures affect various income groups. Many budget proposals advanced over the previous decade would have widened the already large gap between the wealthy and other Americans, cutting benefits primarily for middle-class and poor households while reducing taxes for those at high income levels. The Clinton budget, by contrast, hits hardest at those at high income levels. Seventy percent of its individual tax increases would be borne by those with incomes exceeding $100,000, about the top five percent of households. More than half of its tax increases would come from those with incomes above $200,000, about the top one percent of households. Total disposable income for the group of households with incomes below $30,000 would be unchanged. The average household right in the middle of the income spectrum would face a tax increase of approximately $200, about one-half of one percent of its income.

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[1] A similar point is made in a recent column by Herbert Stein, now at the American Enterprise Institute and former chairman of the President's Council of Economic Advisers under Richard Nixon and Gerald Ford. While calling for some changes in the Clinton plan, Stein notes that if the plan succeeds, this will demonstrate the willingness of Congress and the public to accept some sacrifice and may pave the way for a discussion of further deficit reduction measures at a future time. "In that case," Stein writes, "we may yet say that 1993 was a turning point away from the disintegration of budget policy that has been going on for the past 25 years." Herbert Stein, "Let's Work With Clinton's Plan," *New York Times*, February 24, 1993.

Moreover, the budget may, over the long run, lead to increases in the income of the typical middle-class family. By reducing the deficit and promoting investment, the budget should gradually boost the rate of economic growth. That, in turn, should create jobs and increase family incomes.

Another striking feature of the budget is its emphasis on boosting public investment in areas where a consensus has developed in recent years among liberal and conservative economists alike that more investment is desirable. These areas include infrastructure, research and development, education and training, and effective "early intervention" programs for children.

In particular, the budget contains substantial increases in a core of highly regarded children's programs that a bipartisan panel headed by former presidents Ford and Carter called on the incoming Bush Administration to expand four years ago and that both the Committee for Economic Development, a group of leading corporate executives and university presidents, and the bipartisan National Commission on Children have urged be expanded. These programs include Head Start, the Special Supplemental Food Program for Women, Infants, and Children (WIC), child immunizations, and the Job Corps, among others.

For this and other reasons, the budget can be regarded as a poverty reduction budget as well as a deficit reduction budget. It should reduce poverty in several ways: 1) by promoting stronger economic growth, and thus more jobs and income, through a smaller budget deficit and increased long-term investment; 2) by supporting efforts to raise the "human capital" of low-income children and adults — and thereby improve their chances of escaping from or avoiding poverty — through major education and job training initiatives and increased resources for such programs as Head Start and WIC; and 3) by enabling substantial numbers of working poor families to work their way out of poverty through an expanded earned income tax credit to supplement their wages and a modest increase in funds for child care assistance to low- and moderate-income families.

The budget makes these changes without unduly raising taxes or soaking the rich, at least insofar as historical comparisons are a guide. Federal revenues would climb modestly to about 19.5 percent of the Gross Domestic Product. This is squarely in the 18 percent to 20 percent of GDP range that revenues have occupied in most years since 1960. It is significantly below the 20.2 percent of GDP that revenues reached in fiscal year 1981 before most of the Reagan tax cuts took effect. In addition, the proportion of income paid in federal taxes by the richest one percent of households would remain lower than it was in the mid-1970s.

The Clinton budget is not without flaws. Its tax provisions are likely to increase use of tax shelters. Its low-income housing provisions reduce resources in

the housing area next year and shift some resources from poor households to those at moderate-income levels. Even so, the overall effect of the budget's tax provisions is to make the tax code more progressive, while the overall effect of its changes in social programs should be to better the conditions of low-income households, especially low-income families with children.

The Clinton budget is incomplete in one significant respect. While it lowers the deficit to $206 billion in fiscal year 1997, the deficit would again begin to rise after that, reaching $241 billion in fiscal year 1998. The reason is not that the Clinton deficit reduction measures run out of steam. The Clinton package would reduce the deficit by $140 billion in fiscal year 1997. (The deficit would be $346 billion that year if no action is taken; under the Clinton budget, the 1997 deficit would fall to $206 billion.) In fiscal year 1998, the Clinton plan would reduce the deficit nearly $150 billion. But the deficit rises in 1998 nonetheless, fueled primarily by exploding health care costs. Thus, the other necessary piece of a long-term deficit reduction program is comprehensive health care reform. The Administration has said it will submit a health care reform plan in May.

The work of examining the Clinton budget and making decisions on it now rests with Congress, and the fate of the budget is not yet clear. If the budget fails, one or more of three scenarios could unfold. There could be continued "gridlock" and little progress either in reducing the deficit or in boosting investment and addressing long-neglected needs. There could be an alternative budget that addresses the budget deficit without also making progress on the investment and social deficits. Such a budget might raise less in revenue than the Clinton budget does while jettisoning a substantial portion of the Administration's investment proposals. A third potential outcome would be a resort to a mechanism such as a constitutional balanced budget amendment, accompanied by avoidance of hard choices on spending cuts, tax increases, and investment proposals. (See box on the constitutional amendment.)

The decisions on this budget, clearly the most significant budget and economic plan since President Reagan's first budget in 1981, lie in the hands of Congress and ultimately the American public.

Balanced Budget Constitutional Amendment Could Pass This Year

Last year, Congress nearly adopted a constitutional amendment to require a balanced federal budget. To become part of the Constitution, the amendment would need to be approved by two-thirds of the House and Senate and ratified by three-quarters of the states. (The President has no role in approving or vetoing it.) The amendment fell just nine votes short of a two-thirds majority in the House last year. It did not come to a vote in the Senate but might have secured a two-thirds majority if it had.

The amendment appears to have even stronger support this year than last. A vote on it could come in the Senate as soon as late March. Passage by both the House and Senate is a strong possibility even if the Clinton budget is adopted. Passage is a virtual certainty if the Clinton budget is stymied and gridlock sets in.

Adoption of such a constitutional amendment raises serious questions. As an analysis issued by the Center on Budget and Policy Priorities indicates, such an amendment is likely to damage the economy more than strengthen it. Because deficits rise in years when the economy is sluggish and fall when the economy is most robust, a constitutional amendment to balance the budget would require larger spending cuts or tax increases in years of slow growth than in years of rapid growth. This is precisely the opposite of what is needed to stabilize the economy and avert recessions. As a result, the amendment risks making recessions more frequent and deeper. (The amendment permits a deficit to be run in a given year if three-fifths of both houses of Congress so approve, but such votes are likely to come too late to avert a recession.)

While the Clinton budget would reduce the deficit while also making investments to promote economic growth, a constitutional amendment would make it more difficult to seek increased public investment. The amendment fails to distinguish public investments needed for long-term growth from consumption expenditures. Moreover, the amendment would require a balanced budget by 1999, a goal so ambitious it would require instituting severe cuts — and would probably necessitate abandoning many of the proposed Clinton investments and reducing funding in a number of investments areas.

Indeed, the constitutional amendment would largely deny the federal government a basic practice that most businesses, families, and state and local governments use — borrowing to finance investments with long-term pay-offs. Businesses borrow to expand; families borrow to send children to college; states borrow to finance capital expenditures with long-term payoffs. Only the federal government would be denied the ability to borrow to make investments unless three-fifths of the Congress agreed to do so fairly regularly. The likely result would be less investment.

Also of concern, the amendment would alter Congressional voting procedures in place for more than 200 years by making it harder to raise revenues than cut programs. The amendment requires that any bill to raise revenues be approved on a roll call vote by a majority of the *full membership* of each house. Bills to cut spending would require a majority of those *present and voting*, with "voice votes" still allowed.

The deficit should be reduced substantially, but the constitutional amendment seems ill-advised as a way to proceed. Needed instead is political leadership in setting priorities and making tough choices to reduce the deficit in an equitable manner, while also making critical investments the nation needs.

II. The Main Contours of the Plan

The Clinton budget consists of three principal components. It includes deficit reduction measures (i.e., spending cuts and tax increases), a short-term stimulus package, and a long-term investment package.

- The deficit reduction measures save $195 billion in fiscal year 1997. Over the five-year period from fiscal year 1994 through fiscal year 1998, these measures save $704 billion.

- The stimulus package consists of about $30 billion in spending increases and tax cuts in 1993 and 1994 to help speed recovery from the recession.

- The long-term investment package includes new program spending and tax reductions totaling $55 billion in fiscal year 1997 and $221 billion over five years.

The net effect of these three components of the budget is to shrink the federal budget deficit by $140 billion in fiscal year 1997. Under current policies, the deficit would be $346 billion that year, according to the Administration's forecasts. Under the Clinton budget, the deficit that year would be reduced to $206 billion. Over a five-year period, net deficit reduction would total $473 billion, as the Administration measures it. (As noted in the box on pages 12 and 13, the Administration has somewhat understated the overall deficit reduction its plan contains because it has counted only those defense savings beyond the savings proposed by the Bush administration.)

Each of these three components of the budget is described briefly below and then examined in more detail in the chapters that follow.

1. Deficit Reduction

A. Spending Cuts

The Clinton plan includes spending cuts in all three principal areas of government spending — defense programs, non-defense discretionary programs (i.e., non-defense programs that are not entitlements), and entitlements.

- *Defense spending* would be reduced significantly. When compared with the Bush defense proposals, the additional defense savings in the Clinton budget equal $7 billion in fiscal year 1994 rising to $36 billion in fiscal year 1998. Over five years, a total of $112 billion would be saved.

- *Non-defense discretionary spending* would be reduced $4 billion in fiscal year 1994, rising to $23 billion in fiscal year 1998. Over five years, the reductions total $73 billion.

- *Entitlements* would be cut $9 billion in fiscal year 1994 and $47 billion in fiscal year 1998. These reductions would total $144 billion over five years. The figures include $29 billion in savings over five years from subjecting a larger proportion of Social Security benefits to taxation. The Clinton Administration characterizes the Social Security change as an entitlement reduction; this is a characterization with which many analysts concur. The Social Security proposal would use the tax system, the only mechanism where information exists on the incomes of Social Security beneficiaries, to recapture a portion of the Social Security benefits paid to the one-quarter of beneficiaries with the highest incomes. The change can thus be viewed as a reduction in entitlement benefits.

Because of the deficit reduction the plan achieves, the government also saves money by having less debt on which it has to pay interest. Savings in interest payments on the debt would total $46 billion over five years.

When these spending cuts are totaled, they equal $128 billion in fiscal year 1998 and $375 billion over five years.

B. Revenue Increases and How They Compare to Spending Cuts

The tax increases in the package add to $46 billion in fiscal year 1994 and $82 billion in fiscal 1998. Over five years, the revenue increases total $328 billion. These figures do not include the funds generated by subjecting a larger proportion of Social Security benefits to taxation.

Table I
Highlights of the Plan
(in billions of dollars)

	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	1994-1997 Total	1994-1998 Total
Baseline Deficit	319	301	296	297	346	390	1,241	1,630
Spending Reductions:								
Defense discretionary		-7	-12	-20	-37	-36	-76	-112
Nondefense discretionary	1	-4	-10	-15	-20	-23	-50	-73
Entitlements other than Social Security	-*	-6	-12	-24	-34	-39	-76	-115
Social Security		-3	-6	-6	-7	-8	-21	-29
Subtotal	*	-20	-40	-65	-98	-106	-223	-329
Debt service	*	-*	-3	-7	-14	-22	-24	-46
Total spending cuts	1	-20	-43	-73	-112	-128	-247	-375
Revenue increases	-3	-46	-51	-66	-83	-82	-246	-328
Gross deficit reduction	-2	-66	-93	-139	-195	-210	-493	-704
Stimulus and investment:								
Stimulus costs	8	6	2	1	*	*	9	9
Investment costs		9	20	32	39	45	100	144
Tax cuts	6	13	17	15	15	17	60	77
Total stimulus and investment	15	27	39	47	55	62	169	231
Total deficit reduction	13	-39	-54	-92	-140	-148	-325	-473
Resulting deficit	332	262	242	205	206	241	916	1,157
Deficit as a percent of GDP	5.4%	4.0%	3.5%	2.9%	2.7%	3.1%	3.3%	3.2%

*$500 million or less

Source: President Clinton's "A Vision of Change in America," p. 22
All spending figures reflect changes in outlays.

Over five years, slightly more than 50 cents is raised through spending cuts for every 50 cents raised through tax increases. The ratio of spending cuts to tax increases rises over time. In fiscal year 1998, about 60 cents are raised through spending cuts for every 40 cents raised through tax increases.

These figures shift somewhat if the Social Security savings are counted as a tax increase rather than as a spending cut. If that is done, the five-year savings totals split almost evenly between spending cuts and tax increases. But even if the Social Security savings are counted as a tax increase, by fiscal year 1998 some 57 cents is raised in spending cuts for every 43 cents raised through tax increases.[2]

Overall Levels of Taxes and Spending

Despite its tax increases, the budget would not raise revenues to historically high levels. The best way to measure total levels of federal taxes and spending is to examine what proportion each makes up of the overall U.S. economy (as measured by the Gross Domestic Product).

Under the Clinton plan, total federal revenues would continue to fall in the range of 18 percent to 20 percent of the Gross Domestic Product, the range they have occupied in most years since 1960. Revenues would rise to 19.6 percent of GDP in fiscal year 1996 and then edge down to 19.4 percent in fiscal 1998. These levels remain significantly below the 20.2 percent of GDP share that revenues made up in fiscal year 1981, prior to the implementation of most of the Reagan tax cuts enacted that year.

Government spending as a percentage of the economy would decline from nearly 24 percent of GDP in fiscal year 1993, a comparatively high level, to 22.4 percent of GDP in fiscal year 1998. By fiscal year 1998, outlays would be lower as a percentage of the economy than in all but two years since 1981 (those being the peak economy recovery years of 1988 and 1989; outlays usually decline as a percentage of GDP during recoveries).

The deficit, measured as a percentage of Gross Domestic Product, would fall to 2.7 percent in fiscal year 1997, the same level as in fiscal 1981 — before the large tax cuts and other budget changes passed in the Reagan Administration's first year took effect — and a lower level than in any year since 1981. The deficit would then climb to 3.1 percent of GDP in fiscal year 1998, primarily because of rising health care costs.

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[2] If the Social Security savings are counted as a tax increase rather than a spending cut and the savings in interest payments on the debt are excluded from the spending reduction totals, the five-year revenue increase total exceeds the five-year spending cut total. Even under such calculations, however, the long-term effect of the package is to cut spending by as much or more than taxes are raised. If the Social Security change is classified as a tax increase and the interest savings are excluded, spending cuts and tax increases are about even in fiscal year 1997, and by fiscal year 1998, the spending cuts exceed the tax increases.

The Stimulus Package

The stimulus package equals approximately $30 billion, most of which would be poured into the economy in fiscal years 1993 and 1994 to accelerate the recovery. In a $6 trillion economy, this is a modest amount. Accordingly, its effect on the economy would be modest. It would function as a type of insurance, making it less likely that the recovery would again become so anemic that unemployment levels began to rise. The stimulus package should slightly accelerate the current slow downward trend in the unemployment rate.

The stimulus package would not materially affect the long-term deficit. For example, fiscal year 1998 outlays would be raised $200 million because of the stimulus package, a very small amount. (Also, the short-term deficit increase caused by the stimulus package in fiscal year 1993 is substantially outweighed by the long-term deficit reduction represented by the budget as a whole.)

The stimulus package includes $16 billion in supplemental fiscal year 1993 appropriations, plus several billion dollars in spending from the highway trust fund, several billion dollars in new Small Business Administration loan guarantees, and a temporary incremental investment tax credit to spur business investment.

The Investment Package

The investment package contains new program investments and new investment-oriented tax cuts. The package totals $221 billion over five years. About two-thirds of the investment package consists of program increases, with about one-third consisting of tax reduction measures.

When the entire budget package is considered — including the deficit reduction measures, the stimulus package, and the investment component — slightly less than half of the *net* deficit reduction over the five-year period comes from spending reductions and slightly more than half from revenue increases. On the other hand, by fiscal years 1997 and 1998, the net savings from the spending side of the budget equal or exceed the net savings from the tax side.

The Clinton Plan *Understates* Its Spending Cuts

The tables in the Administration's budget understate the spending cuts being proposed. As a result, they inflate the proportion of deficit reduction savings that come from taxes. This occurs because the deficit projections the Administration is using as its "starting point" assume billions of dollars of defense spending cuts. The Administration has not counted these cuts as part of the savings its package achieves.

Underestimating the Baseline Deficit

A standard way of estimating the deficit is to forecast what the deficit would be in future years if current law is maintained for taxes and entitlements and if current funding levels, adjusted for inflation, are maintained for non-entitlement programs. That is how the deficit projections used in the 1990 budget agreement were developed.

But in preparing its budget, the Clinton Administration adopted a new and untraditional way of forecasting the deficit. The Administration projected what the deficit would be in future years if current funding levels, adjusted for inflation, were maintained for non-defense discretionary programs *and the Bush multi-year defense program were followed*. The Administration's baseline deficit forecasts thus assume that all defense cuts proposed as part of the Bush defense program would be adopted, a significant departure from normal practice in developing baseline deficit forecasts. As a result, the Clinton baseline deficit is not a true baseline deficit, because it represents what the deficit would be *if* various defense cuts are adopted.

The defense reductions in the Clinton budget — and the budget's total spending cuts — thus appear smaller than they actually are. For fiscal year 1997, for example, the Administration has assumed in its baseline deficit $20 billion in defense spending cuts needed to get down to the defense spending level envisioned by the Bush Administration for that year (along with a few billion dollars in related savings in interest payments). The Clinton Administration does not count these savings as part of the spending reductions its plan would achieve. Yet its plan envisions making the necessary spending cuts to realize these savings.

Had the Administration used the more standard method of projecting the deficit reflected in the 1990 budget agreement — and based the deficit forecast on current defense and non-defense levels, adjusted for inflation — the baseline deficit in fiscal year 1997 would be $369 billion rather than $346 billion. When the Administration's budget figures are revised in this fashion, several results emerge:

- The total deficit reduction the plan achieves in fiscal year 1997 is $162 billion, not $140 billion. Instead of being reduced from $346 billion to $206 billion, the fiscal year 1997 deficit is seen as being reduced from $369 billion to $206 billion.

- The *net* deficit reduction achieved by the package, after the stimulus and investment proposals are taken into account, totals $556 billion over five years rather than $473 billion.

- The proportion of deficit reduction coming from spending cuts reaches 58 percent in fiscal year 1997 and 63 percent in fiscal year 1998 even after the investment package is factored in. If the Social Security savings are counted as a tax increase rather than a spending cut, the proportion of deficit reduction coming from spending cuts in these years is still in the 55 percent to 60 percent range.

These revised estimates do not reflect an attempt to manipulate the numbers. They represent the standard way of forecasting deficits and estimating the magnitude of deficit reduction packages. Moreover, if the size of the Clinton package is to be compared to the size of the 1990 budget agreement, the same method of estimating deficits and counting savings as was used for that agreement should be used here.

Baseline Deficits

	1994	1995	1996	1997	1998
	(in billions of dollars)				
OMB baseline deficits, using FY 1993 appropriations levels adjusted for inflation for both defense and nondefense	307	306	314	369	419
Reduction to reflect Bush defense savings	-5	-10	-15	-20	-25
Associated debt service savings	0	-1	-1	-3	-4
Clinton baseline deficit	301	296	297	346	390

Net Deficit Reduction in Clinton Plan

	1994	1995	1996	1997	1998	4-Year	5-Year
	(in billions of dollars)						
From Clinton baseline	-39	-54	-92	-140	-148	-325	-473
From more standard baseline	-44	-64	-109	-162	-177	-379	-556

III. The Stimulus Package

The stimulus package will be considered early this spring. The Administration has asked Congress to include the spending proposals in the stimulus package in a fiscal year 1993 supplemental appropriations bill to be moved in coming weeks.[3]

The program proposals in the stimulus package fall into seven broad categories.

1. Infrastructure

The stimulus package includes $4.5 billion for infrastructure projects. Two-thirds of this amount would go for the federal highway program, while mass transit would receive about $750 million. Smaller amounts would be provided for airport improvement, AMTRAK, veterans medical facilities, and Army Corps of Engineers water projects.

2. Unemployment Insurance

The current program of supplemental unemployment insurance benefits for the long-term unemployed expires March 6. Since unemployment remains high (it was 7.1 percent in January), the budget proposes to extend these supplemental benefits for six months. The budget also contains a reform in the unemployment insurance program under which displaced workers with little prospect of returning to their old job would be identified and referred to job search and training services.

[3] These proposals would be accompanied by an emergency designation, enabling them to be considered under the terms of the 1990 budget agreement without triggering across-the-board cuts.

3. Health and Human Resources

The stimulus package contains supplemental appropriations requests for a number of human resources and health programs, with emphasis on expanding various programs this summer. The package includes a $1 billion add-on for this year's summer jobs program, $500 million more for Head Start summer programs, and $735 million for the compensatory education for disadvantaged children program (also known as the Chapter 1 program), with most of the Chapter 1 funds going for education programs to be run this summer. In addition, the package includes $2 billion to meet unfunded shortfalls in the Pell grant program, which provides grants to low- and moderate-income students to help them attend institutions of postsecondary education.

This part of the package also includes a $300 million supplemental for child immunization, $200 million for AIDS services under the Ryan White Act, $75 million for the WIC program, and smaller amounts for the emergency food assistance program, schools operated by the Bureau of Indian Affairs, the community service employment program for older Americans, and the Equal Employment Opportunity Commission. Finally, this component of the package contains $2.6 billion in new Small Business Administration loan guarantees.

4. Technology Investments

The package includes $800 million in technology investments, channeled through such agencies as the National Science Foundation, the National Institute of Standards and Technology, the National Oceanic and Atmospheric Administration, and the National Telecommunications and Information Administration. Funds for technology improvements to improve services provided by the Social Security Administration (for processing disability insurance claims) and the Internal Revenue Service are also included.

5. Urban Development and Housing Initiative

The package contains a $2.5 billion supplemental appropriation for the Community Development Block Grant program, which is primarily targeted on low- and moderate-income communities and includes housing construction and repair as well as a range of economic development and infrastructure projects. A $400 million supplemental is included for the supportive housing program, which assists homeless people with shelter and supportive social services.

6. Rural Development Initiative

The package accompanies the urban development initiative with a $700 million rural initiative. This includes rural water and wastewater loans and grants, Forest Service natural resource projects, rural housing loans, rural development loans and grants, and economic development projects on Indian reservations.

7. Environment and Energy Initiatives

Included here is $1.4 billion for a variety of programs: ready-to-go national resource protection projects, many of which would be undertaken by the National Park Service; construction of sewage treatment facilities and other EPA projects; Energy Department laboratories working on technology issues; low-income weatherization projects; and other activities.

8. Investment Tax Credit

In addition to the spending components of the stimulus package, the package includes an incremental investment tax credit that would be available for investments made through calendar year 1994. The tax credit could be used by large corporations and small businesses alike. (The Clinton budget also includes a new, permanent tax credit for investments by small businesses. The small business investment credit is included in the long-term investment component of the budget.)

Outlook for Stimulus Package

As this report is being prepared in late February, Congressional approval of the stimulus package is not certain. Many Republican members contend the economic recovery is moving into high gear on its own and a stimulus package is unnecessary. Some conservative Democratic members of Congress are said to be uneasy about voting now for the spending increases in the stimulus package while having to wait for the long-term deficit reduction package to be ready for passage; some of these Members are concerned the spending increases in the stimulus package could pass now, while the long-term deficit reduction measures might eventually fail. The stimulus package is still likely to pass, perhaps in somewhat modified form, but its approval is not assured.

IV. The Investment Package

Long-term investment initiatives constitute a key part of the Clinton budget. The investment component of the budget seeks to increase government investment both in "physical capital" (such as roads and bridges) and "human capital" (through a better educated and trained and healthier workforce).

The investment component of the budget is large — $221 billion over five years in program outlays and investment-oriented tax cuts ($231 billion if the temporary investment tax credit included in the stimulus package is counted). Some 65 percent of this $221 billion consists of program investments, with 35 percent coming from tax reductions. (Appendix Table 1, reprinted from the Administration's budget, displays the investment component of the budget.)

On the program side, the investment package encompasses four categories:

- Investments in human resources (called "lifetime learning" in the Clinton budget);
- Initiatives to improve the health of the U.S. population;
- Infrastructure investments; and
- Increases in the earned income credit to better reward work by low-income families with children, along with other increases in low-income benefits to offset the regressive impact of the proposed energy tax on low- and moderate-income households.

Investments in Human Resources

The investments in human resources total $51.2 billion over five years, not counting several tax credits related to education or employment. (These figures, and all other figures in this and the following chapter, reflect changes in actual spending levels — or outlays — unless otherwise noted. Data on the changes in appropriations levels that the Administration is proposing are not yet available except for proposals included in the stimulus package.)

The single largest investment would be a very sizable expansion of the Head Start program. Currently, Head Start is funded at a level of $2.8 billion in fiscal year 1993; it reaches about one-third of the eligible children. The budget would steadily increase Head Start outlays nearly $1 billion a year, or $13.8 billion over five years. The budget envisions that Head Start would reach "full funding" status in fiscal year 1999. More than one-fourth of the budget's new spending in the human resources area would go to the Head Start expansion.

The budget would also fully fund the Special Supplemental Food Program for Women, Infants, and Children (known as WIC). Currently funded at a $2.9 billion appropriation level, the budget would raise WIC funding sufficiently so that by the end of fiscal year 1996, the program served all eligible women, infants, and children who applied. In fiscal year 1997, WIC would be funded at a $4.1 billion appropriation level. Currently, about 60 percent of those eligible for WIC are served.

Another major element of the incentive package is the establishment of a new national service program for youth. This initiative would start small, with outlays of $400 million in fiscal year 1994. Outlays would rise to $3.4 billion in fiscal year 1998 and total more than $9 billion over five years. This initiative is intended both to promote community service by young people and to help them afford college or other postsecondary education. In return for one or two years of service at a low-paying community service job, young people would receive significant assistance with education costs.

The budget also contains substantial funding increases for education, with more than $9 billion over five years in increased outlays for a series of reforms and initiatives to improve elementary, secondary, and postsecondary education. In addition, nearly $15 billion over five years would be devoted to new investment in job training initiatives. The budget calls for the establishment of a system of apprenticeship programs for high school students who do not plan to attend college so these students have a better chance at making a successful transition from school to careers in technical occupations. The budget also would expand and enhance the summer youth jobs program to include basic skills training, testing and counseling, and closer coordination with schools. In addition, the budget adopts the

recommendation of the National Commission on Children that the Job Corps program be expanded 50 percent by 2001 and that 50 new Job Corps centers be established. It also proposes a new program for displaced workers who lose their jobs because of industrial restructuring, international competition, or defense spending reductions; this new program would replace several existing job training programs and enlarge upon them.

Finally, the human resources part of the investment package includes increases that reach $250 million a year by fiscal year 1998 for the child care block grant, which helps low- and moderate-income families obtain affordable child care, and new resources reaching $600 million a year by 1998 for parenting and family support initiatives. These initiatives would assist disadvantaged parents.

Health Care

A second large component of the investment package involves improvements in a range of programs designed to improve public health. New resources that reach $4.3 billion by fiscal year 1998 (and exceed $13 billion over five years) would be provided for a variety of public health initiatives, including HIV/AIDS research, research on women's health issues, child immunizations, teen pregnancy programs, and other public health efforts. Additional outlay increases exceeding $1 billion over the next five years would be provided for the Ryan White Act to deal with the AIDS epidemic, while substantial new funding would also be provided for substance abuse prevention and treatment programs. The budget calls for the provision of "challenge grants" to the states to increase substance abuse treatment capacity.

In addition, the budget increases funding for medical care in Veterans Administration facilities, contains a modest initiative to help small rural hospitals upgrade services, and calls for creation of a new program to help offset the impact of refugees and undocumented residents on the budgets of state and local governments, particularly in California, Texas, or Florida.

Infrastructure

A large part of the investment package is grouped under the heading "Rebuild America — Infrastructure." Found here is increased funding for the federal highway programs, mass transit capital grants, high speed rail, air traffic control modernization and airport improvement, and roads on Indian reservations. The "Rebuild America" part of the investment package is not limited, however, to transportation investments. Such investments make up a little more than one-third of

the $50.7 billion in new spending over five years that is included in the infrastructure part of the investment package.

For example, the infrastructure component of the package also includes funding for a variety of environmental infrastructure projects, energy conservation and research activities, and science and technology programs such as those of the National Science Foundation and the National Aeronautics and Space Administration. It also includes new funding for defense conversion programs.

In addition, the "Rebuild America" part of the investment package includes modest funding for community development and low-income housing. It includes spending increases that reach $150 million in fiscal year 1998 for the community development block grant and new spending that rises to about $100 million a year for a network of community development banks to provide loans for commercial development and housing in economically depressed areas. It also contains added funding for housing certificates and vouchers to help more low-income households find affordable rental housing in the private market, for the supportive housing program for the homeless, and for the preservation and renovation of low-income housing projects. (As explained in Chapter VII, some of the initiatives in the low-income housing area are largely offset by cuts in other low-income housing programs.)

Other Components of the Investment Package

The investment package contains a large increase in the earned income tax credit to reward work among low-income families with children, the extension of the earned income credit to poor workers without children, and increases in food stamp and low-income energy assistance benefits. The principal purpose of these initiatives is to offset the energy taxes that households with incomes below $30,000 otherwise would pay. When the combined effect of the energy tax, the earned income credit expansion, and the food stamp and energy assistance expansions is figured, the total amount of disposable income received by households below $30,000 would remain essentially unchanged. These initiatives would also enable millions of working poor families with children to be brought closer to or above the poverty line and should facilitate favorable consideration of legislation that has been before Congress for several years to raise food stamp benefits for poor families with children. (As this report goes to the printer, the Administration has not yet determined precisely what food stamp expansion measures it will recommend.) The EITC, food stamp, and energy assistance expansions are discussed further in the tax chapter of this report.

The final program initiative in the investment budget is a crime initiative. The budget provides several billion dollars in new funds over the next five years for an

initiative that includes grants to localities for community policing, a new Police Corps program to provide scholarships to would-be police officers in exchange for a commitment to serve on a police force, and other anti-crime efforts.

Tax Reductions

The investment package also features tax reductions totalling $77 billion over five years. Most of the tax cuts fall into one of three categories — the extension of various tax credits and deductions that expired last year, new business investment tax breaks, and the aforementioned expansion of the earned income tax credit.

The budget extends a series of tax expenditure provisions that expired last summer. Most of these tax provisions would be made permanent. They include the research and experimentation tax credit, the low-income housing credit, the targeted jobs tax credit, the health insurance deduction for the self-employed, the mortgage revenue bond program, and the tax exclusion for employer-provided education assistance. The targeted jobs tax credit would be expanded as well as made permanent.

The new tax breaks for various types of business investment include the temporary incremental investment tax credit contained in the stimulus package and a new permanent tax credit for equipment investments made by small businesses. The budget also includes a capital gains tax cut on profits that individuals earn on investments made in small businesses and held at least five years, as well as several real estate tax breaks.

Finally, the budget would establish enterprise zones in a number of economically distressed areas. Businesses located in the zones would qualify for various tax reductions.

V. The Spending Cuts

The Clinton budget contains $144 billion in entitlement cuts over the next five years. The savings from the entitlement changes rise substantially over time. They total $9 billion in savings in fiscal year 1994, but $47 billion in fiscal year 1998.[4] More than half of the entitlement savings come from Medicare (where most of the cuts are aimed at health care providers rather than beneficiaries) and Social Security, where a larger share of benefits would be subject to taxation for the quarter of beneficiaries with the largest incomes.

The non-defense discretionary reductions are about half as large, totaling $73 billion over five years. More than half of the savings in this area would come from reductions in pay for federal employees, a reduction of 100,000 federal employees over the next four years, and major cuts in federal agency administrative accounts. (Appendix Tables 2 and 3 list the cuts proposed in entitlement and non-defense discretionary programs.)

The defense savings fall in-between the entitlement and the non-defense discretionary savings in magnitude.

Entitlement Reductions

Medicare costs would be reduced below the levels they would otherwise attain by $54 billion over five years. The Medicare savings would grow from $3 billion in

[4] All figures in this chapter refer to reductions in outlays, unless otherwise noted.

fiscal year 1994 to $20 billion in fiscal 1998. Nearly four-fifths of these savings would come from reductions in payments to medical care providers.

In the past, reductions in Medicare payments to doctors and hospitals have often been followed by increases in the amounts that doctors and hospitals charge other payers. As a result, such reductions have led to more rapid increases in the cost of private insurance policies. The Medicare reductions in the Clinton budget could have a similar effect unless they are accompanied by national health care reforms that include strong measures to contain health care costs in both the private and public sectors. The Administration plans to present a proposal for comprehensive reform of the U.S. health care system in May.

In addition to the cuts in payments to providers, $11.6 billion in savings over five years would come from increased premium payments from Medicare beneficiaries. The monthly premium payments for Part B of Medicare (the part covering physicians' services) would rise at the same rate as overall costs for the Part B program. As a result, the premiums would rise at roughly the rate of medical care inflation.[5]

Many low-income Medicare beneficiaries will be able to escape the higher premiums through enrollment in the Qualified Medicare Beneficiaries program and the Specified Low Income Medicare Beneficiaries program, both of which are already in law. In 1994, Medicare beneficiaries with incomes below 110 percent of the poverty line and limited assets can, under these programs, have Medicaid pay their Medicare Part B premiums for them. In 1995 and subsequent years, those with incomes up to 120 percent of the poverty line can have their premiums paid. A substantial number of low-income elderly and disabled individuals appear to be unaware of these relatively new programs, however, and are still paying their Medicare premiums themselves.

Social Security

The second largest entitlement savings measure is the proposal to subject a larger portion of Social Security benefits to taxation. Under current law, 50 percent of Social Security payments are counted as taxable income for single beneficiaries with incomes over $25,000 and couples with incomes over $32,000. Slightly fewer than one in four Social Security beneficiaries currently have incomes high enough to pay any tax on their Social Security benefits.

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[5] Under current law, these premiums will equal about 27 percent of the total costs of the Part B program in fiscal year 1995, but will rise more slowly than Part B costs after 1995 and will equal less than 27 percent of Part B costs in those years. The Clinton budget would raise premiums at the same rate as overall Part B costs so they continue to defray 27 percent of Part B expenditures.

Increased Taxation of Social Security Benefits

The Administration's proposal to increase the proportion of Social Security benefits subject to taxation would promote tax equity and represent sound tax policy, as well as helping to reduce the deficit. Under Social Security legislation enacted in 1983, some 50 percent of Social Security benefits are counted as taxable income for single taxpayers with incomes above $25,000 a year and married couples with incomes above $32,000. The 50 percent figure was selected largely because of the popular impression that beneficiaries have already paid for half of their Social Security benefits themselves through their payroll contributions, with their employers having paid the other half. But this impression is mistaken. If the tax system is designed so that the portion of benefits paid for by beneficiaries is exempt from taxes — but the remaining benefits are subject to taxation — about 85 percent of the benefits would be taxable.

Taxing benefits to the extent they exceed employee contributions is the method used to determine the portion of private and public employee contributory pensions that is taxable. The Congressional Budget Office has noted that increasing to 85 percent the maximum share of Social Security benefits subject to taxation would make the tax treatment of Social Security for those at higher income levels roughly comparable to the tax treatment of contributory pensions.

This does *not* mean 85 percent of Social Security benefits would be taxed back, but rather that, for those above certain income levels, 85 percent of Social Security benefits would be considered part of taxable income. For those in the 28 percent tax bracket whose benefits would be subject to taxation, a maximum of 24 percent of the benefit would be taxed back.

This proposal is highly progressive. Most Social Security beneficiaries would continue paying no tax on their Social Security benefits; only those above the income limits would be affected. In 1994, some 23 percent of beneficiaries — fewer than one in four — will be above these income limits and have their benefits subject to taxation. That percentage will gradually increase over time.

Greater taxation of Social Security benefits would also improve the long-term solvency of the Medicare hospital insurance trust fund. Under the Administration's proposal, the increased revenues collected by subjecting a larger share of Social Security revenues to taxation would be deposited in this trust fund. The Medicare hospital insurance fund is in trouble; under current projections, the trust fund will be exhausted by shortly after the turn of the century. Depositing these revenues in the fund would bolster it.

It may also be noted that when 50 percent of Social Security benefits were made taxable in 1983, federal income tax rates were much higher than they are today. The top rate at that time was 50 percent. As a result, beneficiaries in the top tax bracket had up to one quarter of their benefits recaptured through the tax system. (Half of their Social Security benefits were taxed at a 50 percent rate.) Today, the top rate is 31 percent, and the proportion of the benefits recaptured from those in the top bracket has fallen to 15.5 percent. Even with a top tax rate of 39.6 percent, only about 20 percent of the benefits would be recaptured if no change is made in the current provision making 50 percent of Social Security benefits taxable. If 85 percent of Social Security benefits are made taxable and the top income tax rate is increased to 39.6 percent, about one-third of Social Security benefits granted to the wealthiest taxpayers would be recaptured through the tax system.

The budget would make 85 percent of the benefits subject to taxation for those with incomes above these levels, rather then 50 percent. Many budget experts and Social Security analysts have recommended such a change for years. (The Center on Budget and Policy Priorities has been calling for it since 1985.) Counting 85 percent of these benefits as taxable income would make the tax treatment of Social Security similar to the tax treatment of other public and private contributory pensions. This issue is discussed in more detail in the box on the preceding page.

Medicaid

The budget reduces Medicaid by $2.8 billion in fiscal year 1998 and $8.5 billion over five years. The principal cut would be the repeal of a provision enacted in 1990 which mandates, starting in 1995, that state Medicaid programs cover personal care services for elderly and disabled people who are still living at home but who are eligible for nursing home services. Under the Clinton budget, this would remain a state option.

Table II
Impact of Proposal to Tax 85 Percent of Social Security Benefits

Income Category	Percentage of beneficiaries in each income group that are currently subject to tax on their Social Security benefits*	Average Tax Increase from this Proposal**	Change as a Percentage of Before-Tax Income
0-10,000	—	—	
10,000-20,000	—	—	
20,000-25,000	—	—	
25,000-30,000	4%	$42	-0.2%
30,000-40,000	29	127	-0.4
40,000-50,000	89	373	-0.8
50,000-100,000	99	619	-0.9
100,000+	99	1,072	-0.5

* The percentages in the $25,000 to $50,000 range will increase somewhat if 85 percent of benefits are subject to taxation.

** These average figures are for all Social Security beneficiaries in each income group including those that owe no tax on their benefits because of the effect of the income thresholds.

Source: Citizens for Tax Justice, using data from House Committee on Ways and Means, *1992 Green Book* (May 1992), Table 13, p. 30.

A second Medicaid change would reduce to 50 percent the federal matching share of those state Medicaid administrative costs that are currently matched at a rate higher than 50 percent. Costs for computer systems, medical and utilization reviews, the certification of nursing facilities, systems to verify the status of immigrants, and several other functions are matched at higher rates. This change, which would take effect in April 1994, would shift $400 million to $500 million a year in Medicaid administrative costs from the federal government to the states. A parallel change reducing to 50 percent the federal matching rates for various state costs in administering the AFDC and food stamp programs would shift about $100 million more per year to states. A number of states are likely to reduce Medicaid coverage and services and/or AFDC benefit levels to offset part of the loss of federal funds.

A third Medicaid change would tighten Medicaid "transfer-of-asset" rules to prevent individuals with adequate resources from diverting their resources to qualify for Medicaid nursing home coverage. This would make it more difficult for elderly people who are not low income to qualify for federally paid nursing home care.

Agriculture Programs

The budget would reduce the costs of agriculture entitlement programs by $150 million in fiscal year 1994 and $2.3 billion in fiscal year 1998 (a total of $6.6 billion over five years). The savings would be spread over a number of agriculture programs and agriculture commodity areas. Some of the cuts would be targeted on large farming operations.

Student Aid

Cuts in student loan programs would reach $2 billion a year by fiscal year 1998. Most of the savings would be achieved by replacing the current student loan program, under which students take out subsidized loans from banks, with a direct loan program in which they borrow directly from the federal government. The savings come primarily from eliminating the substantial subsidies now provided to banks participating in the program.

Smaller savings would be achieved by requiring states to bear part of the costs for high student loan default rates while giving states added tools and incentives to reduce default rates.

Veterans Programs

The budget proposes to cut veterans' entitlement programs by $300 million in fiscal year 1994, rising to $1.3 billion in fiscal year 1998 (and $3.7 billion over five

years). The majority of the savings come from extending already enacted provisions of law that will otherwise expire.

Lump-sum Retirement Benefits

Another source of significant savings would similarly come from extending a provision of current law. Prior to 1990, federal civilian employees could elect to receive large lump-sum retirement benefits at the time they retired, in exchange for a reduced monthly annuity for life. Legislation enacted in 1990 eliminated, through 1995, the option for retirees to receive these lump-sum payments. The Clinton budget would remove this option permanently, saving $3.2 billion in fiscal year 1998 and $5.1 billion over five years.

User Fees and Other Savings

Another $8.4 billion would be saved over five years by imposing or increasing user fees for various government services. These proposals are designed to generate fee collections that more fully offset the government's cost in providing these services. Another $4.1 billion would be saved over five years by auctioning unused parts of the electromagnetic spectrum. In the past, the federal government has assigned spectrum rights by lottery or hearing, with the winning individuals and businesses reaping windfalls while the government received no remuneration.

Finally, the budget would shorten the terms of new government maturities. Since short-term interest rates are lower than long-term rates, this saves considerable amounts — $4.9 billion in fiscal year 1998 and $16.4 billion over five years.

Non-defense Discretionary Cuts

The budget contains cuts in non-defense discretionary programs that start small — $4.5 billion in fiscal year 1994 — but rise to $23 billion in fiscal year 1998. Over five years, these cuts total $73 billion.

A majority of these savings come from reducing federal employee pay costs and federal agency administrative costs. There would be no federal pay raise in 1994, and pay increases would be one percent lower than a full inflation adjustment in 1995 through 1997. The number of federal civilian employees would be reduced 100,000 by 1997. In addition, federal agencies would be required to achieve large administrative savings through cuts in such areas as travel, printing, and consulting services. The budget calls for overall savings in federal pay rates, federal employees, federal administrative costs, and actions to "streamline government" that reach $13.3 billion in 1998 and total $45.2 billion over five years. (It is not clear how the

savings from "streamlining government" — figured at $12 billion over five years — are to be achieved. They may include some program reductions along with administrative savings. The budget provides insufficient detail to answer this question.)

These savings levels are ambitious. The budget also envisions the continuation through 1998 of caps on total discretionary appropriations. Failure to achieve federal agency administrative savings of this magnitude thus would necessitate larger reductions in other non-entitlement programs.

The other cuts in the non-defense discretionary area would come from more than 65 specific program cuts. The largest such savings would come from ending federal funding for wastewater treatment plants. The next largest savings come from various international programs, with the largest reductions in the international area coming from foreign military aid.

Sizable savings would also come from redesigning the space station and ending large numbers of grants, construction projects, and research projects that are earmarked in appropriations bills for particular states or Congressional districts. The budget also would secure savings by reducing Small Business Administration loan subsidies, veterans construction projects and VA Hospital management costs, federal prison construction, and nuclear reactor research and development.

Two final areas where cuts are made deserve mention — education and low-income housing. The budget would cut three student aid programs — supplemental grants, the work-study program, and the Perkins-loan capital program — by several hundred million dollars a year. The initial reduction would be $200 million in appropriations, a cut of about one-seventh. The cut would rise somewhat in magnitude over time. The budget declares that these programs, while needs-tested, allow states to assist students less needy than those who get Pell grants. The budget says that when all student aid proposals are examined, total aid from the major student aid programs would increase despite the reductions in these three programs.

The budget would also terminate several low-income housing programs — new public housing construction, a program that funds construction and rehabilitation of housing for the low-income elderly, and a similar program aimed at the low-income disabled. In lieu of these programs, the HOME program, a housing block grant to states and localities, would be substantially expanded. The net effect, however, would be a sizable cut. Also, the terminated programs target on poor households while HOME program funds are likely to be targeted more heavily on households with somewhat higher incomes.

Defense Savings

Defense spending is expected to total $294 billion in fiscal year 1993. If defense appropriations were to keep pace with inflation, defense spending would reach $314 billion in fiscal year 1998.

Under Bush administration proposals, defense spending would edge down slightly to $289 billion in fiscal year 1998 rather than rising to $314 billion. Under the Clinton budget, defense spending would decline by a significantly larger margin.

The Clinton budget calls for defense spending of $253 billion in fiscal year 1998, some $61 billion below the current level adjusted for inflation and $36 billion

Table III
Clinton Defense Proposals*
(in billions of dollars)

	1993	1994	1995	1996	1997	1998
Current baseline:						
Budget authority	$274.3	$288.0	$296.4	$304.5	$312.9	$321.5
Outlays	294.3	289.6	293.8	299.8	306.5	313.8
Reductions reflected in Bush defense plan:**						
Budget authority	—	-12.5	-18.4	-26.2	-28.3	-28.1
Outlays	—	-5.3	-9.5	-15.2	-20.0	-24.8
Bush defense plan:**						
Budget authority	—	275.5	278.0	278.3	284.6	293.4
Outlays	—	284.4	284.3	284.6	286.5	289.0
Proposed Clinton policy changes:						
Budget authority	—	-11.8	-15.2	-24.5	-36.2	-39.2
Outlays	—	-6.7	-11.7	-19.7	-37.4	-36.3
Proposed Clinton defense levels:						
Budget authority	274.3	263.7	262.8	253.8	248.4	254.2
Outlays	294.3	277.7	272.6	264.9	249.1	252.7

* Table reflects defense discretionary programs

** Costs of Bush defense proposals as reestimated in the Clinton budget

Source: Office of Management and Budget, *A Vision of Change for America*, p. 121.

below the Bush proposals. Defense appropriations (as distinguished from defense spending) would fall by a lesser amount, from $274 billion in fiscal year 1993 to $254 billion in fiscal year 1998. After adjusting for inflation, this represents a reduction in appropriations of about 20 percent over the five-year period. Under the Bush defense plan, defense appropriations would have declined eight percent during this period, or slightly less than half as much.[6]

The Clinton budget envisions sizable reductions in defense appropriations and defense spending from fiscal year 1993 to fiscal year 1997. Between fiscal year 1997 and fiscal year 1998, defense appropriations would increase by slightly less than the inflation rate.

The full details of the proposed defense reductions are not yet available, but they include a reduction in the size of the armed forces, lower funding levels for the Strategic Defense Initiative than the Bush budget envisioned, a freeze on the pay of defense employees in fiscal year 1994, and a reduction in planned pay increases by one percent per year in fiscal years 1995 through 1997.

One concern is whether these proposals will be sufficient to sustain these levels of defense savings after the five-year budget period ends. An analysis by the Defense Budget Project notes that under current Pentagon plans to modernize various weapons systems, defense procurement costs are likely to mount substantially around the turn of the century. The analysis states that unless the Clinton Administration decides to make reductions in weapons programs or in the readiness of the armed forces, or to institute further reductions in the size of the armed forces, it may be necessary to begin increasing defense spending at that time.[7]

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[6] Defense Budget Project, "Clinton Defense Budget Plans — An Early Look," February 22, 1993.

[7] *Ibid.*

VI. The Tax Increases

The budget includes tax increases as well as spending cuts. The tax increases total $46 billion in fiscal year 1994, rising to $83 billion in fiscal year 1997. They then edge down to $82 billion in fiscal year 1998. Over a five-year period, the tax increases would raise $328 billion in new revenue.

As described in Chapter IV, the budget also includes $77 billion over five years in new tax cuts. Thus, the net revenue increases in the budget total $251 billion over this period.

The tax provisions of the budget have been incorrectly described as the largest tax increases in U.S. history. Adjusted for inflation, the tax increases enacted in 1982 with the concurrence of President Reagan were larger.

The New Taxes and the Well-to-Do

The new energy tax in the budget has attracted considerable attention. But it is not the principal revenue provision. It accounts for less than one in every four dollars the budget would raise in new revenues.

More than half of the revenue increases would come from a series of provisions raising the taxes paid by high-income individuals. More than 70 percent of the revenue increases would come from increased taxes on either high-income individuals or corporations.

The principle that revenue increases should be concentrated at the top of the income scale is reflected in an array of tax provisions. These provisions would:

- Add a new income tax bracket with a 36 percent rate for married filers with taxable income above $140,000 and for individuals with taxable income above $115,000. Taxable income refers to income *after* deductions and personal exemptions. As a result, the new bracket would generally affect married filers with adjusted gross incomes (i.e., income before deductions and exemptions) of $180,000 and above, and individuals with incomes above $140,000. Only the top one to two percent of households would be affected.

- Impose a 10 percent surtax on taxable income above $250,000. This is equivalent to establishing a 39.6 percent bracket at this income level. Fewer than one percent of taxpayers would be affected.

- Require the Medicare payroll tax to be paid on all earnings. Currently, the tax must be paid on earnings of up to $135,000, but not on earnings above that level. Hence, this change affects taxpayers who earn more than $135,000. The revenues raised in this manner would be deposited in the Medicare Hospital Insurance Trust Fund, which sorely needs funds. The trust fund is estimated to run out of funds soon after the turn of the century.

- Reduce the deduction for business meal and entertainment expenses, a deduction that primarily benefits high-income taxpayers. Currently, 80 percent of business meal and entertainment expenses can be deducted. The budget proposes that 50 percent of these expenses be deductible instead.

- End the deduction for private club dues.

- Bar corporations from taking a deduction for executive salaries that exceed $1 million a year.

Other provisions targeted on high-income taxpayers would raise the alternative minimum tax rate (which is paid by high-income taxpayers who have so many deductions and write-offs they would otherwise owe little tax), extend current tax provisions limiting personal exemptions and itemized deductions for those at high income levels, raise tax rates on large estates, and modify pension tax breaks for those at high income levels.

These provisions raise substantial revenue without unduly "soaking the rich." They increase taxes on the top few percent of taxpayers by $35 billion to $40 billion a year. Calculations based on data from the Congressional Budget Office show that if the top *one percent* of taxpayers simply paid the same percentage of income in federal taxes that they paid in 1977, these individuals would be paying at least $43 billion more in taxes this year. Thus, the Clinton budget would leave the average tax burdens of high-income taxpayers somewhat below what these burdens were in the mid-1970s.

The principal corporate tax hike would be the increase from 34 percent to 36 percent in the corporate tax rate applied to taxable corporate income of over $10 million. This provision would raise taxes by between $5 billion to $6 billion a year in most years. Of the 2.2 million corporations in the United States, about 2,700 — or about one-tenth of one percent — would be affected in any year.

The budget would also reduce tax breaks for pharmaceutical companies with plants in Puerto Rico (these companies currently receive lavish tax breaks) and raise a modest amount of revenue from foreign and multi-national corporations doing business in the United States. Several smaller tax-raising provisions are also included, including a provision that would preclude corporations from taking a tax deduction for their lobbying expenses.

The budget contains several business tax cuts, with these cuts somewhat targeted on small businesses. When the corporate tax increases and corporate tax cuts are examined together, the net effect is a quite modest tax increase for the corporate sector as a whole. For many small businesses, taxes would be reduced.

The Energy Tax

The budget includes a new, broad-based tax on all types of energy, based on the energy content of the fuel as measured in British thermal units (BTUs). The energy tax is not that large. The average household would pay about $200 more per year — about $17 more per month — as a result of it.

By itself, the energy tax would be regressive — that is, it would take a larger percentage of income from low-income households than from affluent ones. The budget accompanies the energy tax, however, with three measures to offset its impact on low- and moderate-income households. The budget includes: a large increase in the earned income credit of more than $6 billion a year[8]; an increase in

[8] The earned income credit increase would be effective for tax year 1994. Most EIC families would first receive these benefits after filing their 1994 tax returns in early 1995.

food stamp benefits of $1 billion in fiscal 1994, $2 billion in fiscal year 1995, and $3 billion in years after that[9]; and an increase in low-income energy assistance that reaches $1 billion a year by fiscal year 1997. The effect of these three provisions is to offset the energy tax and avoid any aggregate reduction in disposable income for households with incomes below $30,000.

The Administration's three-part offset package accomplishes this task in a series of complementary ways. The earned income credit, which benefits low- and moderate-income working families, is enlarged. In addition, the credit — which would otherwise cover families with incomes up to about $24,000 next year — is extended to families at modestly higher income levels. Also, a new component of the earned income credit is established for childless workers with incomes below $9,000. Meanwhile, the increases in food stamp and energy assistance benefits cover low-income households that would not receive the earned income credit because they do not have earnings (or have earnings above $9,000 and do not have children). The food stamp and energy assistance increases would protect many elderly and disabled poor people and poor unemployed families from being pushed deeper into poverty by the energy tax.

The Distributional Effects

When the tax proposals are considered as a package and the three offset provisions are taken into account, the effect is highly progressive. There would be no tax increase for low- and moderate-income households, while middle-income households would face small increases. High-income households would pay the most. (See Table IV.)

More than half of the tax increases would be borne by households with incomes over $200,000 a year, roughly the top one percent of all households. Some 70 percent of the tax increases would be borne by those with incomes exceeding $100,000; they constitute about the top five percent of taxpayers.

As noted, virtually none of the tax increase would be borne by those with incomes under $30,000. In the $30,000 to $50,000 range, the tax increase would average less than $200 per year, or about one-half of one percent of family income. The following table shows how progressive the tax proposals are.[10]

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[9] The Administration has not yet developed proposals for what specific changes to make in the food stamp program.

[10] This table uses the long-standing Treasury Department approach of classifying households into income categories according to the family's "economic income." Economic income as reflected in the

(continued...)

Table IV
Administration's Tax Proposals
(includes taxation of Social Security benefits and the earned income credit, food stamp, and energy assistance increases)

Family Economic Income (class in thousands of dollars)	Change in Federal taxes under the budget, measured as a percentage of pre-tax income	Amount of new taxes paid (in billions of dollars)	Percentage of overall tax increase borne by each category	Effective federal tax rates, under current law (i. e., federal taxes as a percentage of income)	Effective federal tax rates, under the budget
0-10	-0.2%	-$0.2	—	7.8%	7.6%
10-20	0.0	0.0	—	9.8	9.8
20-30	0.1	0.4	1%	14.0	14.1
30-50	0.5	4.4	7	17.3	17.8
50-75	0.7	7.6	13	19.0	19.7
75-100	0.7	5.9	10	20.4	21.1
100-200	0.7	8.0	13	21.2	21.8
200 and over	2.9	34.3	57	20.9	23.8

Some Adverse Side-Effects

The Administration's tax package raises substantial revenue to reduce the deficit and does so in a highly progressive fashion. In addition, the energy tax should have positive environmental effects.

The downside is that the package is likely to generate an increase in tax sheltering. In particular, the capital gains tax rate would be set well below the top individual tax rate. Under the budget, the top capital gains rate would remain at 28 percent while top rates of 36 percent and 39.6 percent are established. This differential between the tax rates on capital gains and the rates on other income

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[10] (...continued)
Treasury tables includes, in addition to income reported on tax returns, estimates for unreported income, tax-exempt interest, nontaxable benefit payments, and employer-provided fringe benefits. It also includes estimates of net "inside build-up" on pensions, IRAs and Keoghs; net "imputed rent" on houses; inflation-adjusted realized and unrealized capital gains; and inflation-adjusted gains and losses on borrowing and lending.

would create incentives for wealthy individuals to convert other forms of income into capital gains.

Commenting on the Clinton tax proposals, tax analyst Robert McIntyre has warned that many wealthy investors will "try to deduct the expenses of an investment against the regular 39.6 percent top rate while paying tax on the profits at the 28 percent capital gains rate." As a consequence, McIntyre concludes, "there will be lots of tax-shelter investments that are more profitable after-tax than before-tax — even some that lose money before tax yet pay handsomely [after tax] . . . . [This] will send investment capital chasing tax advantages rather than what's best for the economy." McIntyre argues that a better option would be to raise the top rate a bit less than the Clinton budget does and to apply it to all income, including capital gains.[11] Congress is, however, not likely to follow such a course.

Proposals to create several new tax breaks for profits from investments in small businesses and for certain real estate profits also increase the potential for a rise in tax sheltering. In addition, the budget would weaken the alternative minimum tax in some ways.[12] This tax is designed to ensure that high-income individuals and corporations that take large tax write-offs still pay some significant tax.

One tax break in the package will ultimately cost more than it would cost through fiscal year 1998. The capital gains tax cut on profits from investments in small business would apply to investments held at least five years. Hence, it would cause little revenue loss over the next five years. Revenue losses would be larger over the longer term.

Still, the budget's new tax breaks (and the potential for them to generate larger revenue losses over the long-term) are substantially smaller than the tax breaks in both of the tax bills passed by Congress and vetoed by President Bush last year. Some of the tax breaks in the Clinton budget are troubling. When compared to the tax legislation passed last year, however, the budget seems admirable for the degree of restraint exercised in fashioning new tax breaks.

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[11] Robert S. McIntyre, "Keep the Loopholes Plugged," Citizens for Tax Justice, February 1993.

[12] *Ibid.*

VII. A Closer Look at Low-Income Issues

The Clinton budget can be regarded as a poverty reduction budget as well as a deficit reduction budget. It should help reduce poverty in four ways.

First, by reducing the budget deficit and increasing long-term investment, the budget should foster a somewhat higher rate of long-term economic growth. Increased growth creates more jobs and income and reduces poverty.

Second, the budget contains a series of initiatives designed to increase the "human capital" of those who otherwise might become or remain poor. This should boost their chances of escaping from poverty or avoiding falling into it. These initiatives include the full funding of Head Start, the expansion of the Job Corps, the new apprenticeship program for non-college bound youth and other improvements and expansions in job training programs, reforms to improve the education system, and the national service program for youth.

Third, the budget includes proposals to improve the health of low-income children (among others). These changes should increase the chances for these children to become healthy, self-sufficient adults. Among these proposals are the full funding of WIC and a major expansion of the child immunization program, initiatives to boost funding for AIDS prevention and treatment and substance abuse prevention and treatment, and funding increases for other public health programs.

Fourth, the budget would enable more poor families to work and to escape poverty through their work effort. It would accomplish this by substantially increasing the earned income credit and modestly increasing funds for child care assistance to low- and moderate-income families. The budget would also increase

food stamp benefits. While the details of the Administration's food stamp proposals have not yet been developed, it is likely that they will encompass much of the Mickey Leland Childhood Hunger Prevention Act, legislation that would address hunger problems among low-income children and their families (and that was championed on Capitol Hill over the past two years by then-Representative Leon Panetta, now director of the Office of Management and Budget).

It is also worthy of note that the budget shields the poor from increases in taxes so that the tax proposals of the budget would not push them deeper into poverty.

Weak Points

The budget does contain a few weak points in the low-income area, although they are greatly outweighed by the budget's strong points in this area. As noted in Chapter V, the budget proposes to reduce federal matching rates for certain administrative costs that states bear in administering the Medicaid, AFDC, and food stamp programs. The savings from these provisions, which total about $600 million a year, largely represent a shift in costs from the federal government to states. To the extent that states must offset these costs within their public assistance budgets, the result could be reductions in Medicaid coverage or services and/or AFDC benefits in some states. In addition, this change would take effect on April 1, 1994 — in the middle of the 1994 fiscal year for most states. Yet it probably would not be enacted until after the time when most states have completed work on their 1994 budgets. The Administration's budget notes that waivers will be provided in some hardship cases. Depending on how the waiver provision is applied, this change could cause some states to have to institute mid-year cuts next fall or winter.

The budget also contains a provision requiring states that pay state SSI supplements to poor elderly and disabled SSI beneficiaries and that elect to have the federal government administer these SSI supplements to start paying a fee to the federal government for this service. The fee would eventually reach $5 per month per beneficiary. In some of the 18 states that would be affected, the state would probably reduce the SSI supplements by up to $5 per month to recover these costs.

This change would alter part of the original SSI program design. Since the federal SSI benefit level falls well below the poverty line, the SSI program was designed in a manner to encourage states to provide SSI supplemental payments. One inducement was that if states provided the supplemental payments (which are 100 percent state financed), the federal government would administer them without a charge.

The SSI proposal would eventually require these states to pay fees of close to $200 million a year. (California would be the state hit hardest.) The combined effect of the SSI proposal and the proposal regarding Medicaid, AFDC, and food stamp matching rates would thus be to shift to states close to $800 million a year in costs for administering low-income benefit programs. That, however, is a small fraction of the increased funding that would go to low-income benefits and services as a result of the numerous initiatives in the budget. The net effect on poor families and individuals overall is distinctly positive.

Welfare Reform

Another issue regards welfare reform. Candidate Clinton spoke extensively about welfare reform during the campaign; the Administration plans to submit a welfare reform proposal later this year. During both the campaign and the transition, Clinton officials spoke of providing significant increases in resources for employment and training programs for welfare recipients as part of a welfare reform effort to promote work. At present, welfare education, employment, and training programs serve only a modest fraction of AFDC recipients.

The budget sets no money aside for welfare reform although the Administration clearly is committed to developing a major welfare reform initiative. How the initiative will be financed remains unclear at this time.

Finally, some of the budget proposals in the low-income housing area are cause for concern. The housing proposals are a "mixed bag," with some helpful expansions and some troubling cuts. Because of the issues raised by the housing proposals, they are examined in more detail in the remainder of this chapter.

Low-Income Housing Issues in the Budget

Low-income housing programs are treated somewhat less favorably than most other low-income program areas. In fiscal year 1994, total appropriations for low-income housing programs under the jurisdiction of the Department of Housing and Urban Development would fall $745 million *below* fiscal year 1993 levels, after adjusting for inflation. On the other hand, over the five year period from fiscal 1994 through fiscal 1998, appropriations for housing programs would increase $1.9 billion. (See Table V on page 45.)

Some significant program shifts underlie the multi-year increase, including the shifting of funds from several housing programs serving the poor to programs primarily serving those at somewhat higher income levels. The budget would end programs designed to build new public housing or to construct housing for the low-

income elderly and handicapped. It would partially offset this loss of funding with an increase in the HOME program, a recently created block grant program that provides funds to states, localities, and non-profit housing developers for a range of housing activities. The terminated programs serve primarily poor households; the HOME program is likely to focus to a greater extent on households with somewhat higher incomes. The budget does expand rental assistance to low-income households and triples the size of the supportive housing program for the homeless, a flexible grant program to provide housing and services to homeless people. The budget also permanently extends the low income housing tax credit and mortgage revenue bonds. Together these tax provisions would result in revenue reductions of nearly $5 billion over the next five years.

Housing Issues in the Stimulus Package

Housing fares relatively well in the stimulus package. The package provides a one-time increase in the Community Development Block Grant program of $2.5 billion for fiscal year 1993. This is in addition to the $4 billion already appropriated for the program this year. This increase would provide mayors and governors with new funds for community development projects. Some portion of these funds is likely to be used for housing efforts.

The stimulus package also includes a $423 million supplemental appropriation for the Supportive Housing Program for the Homeless. The supplemental appropriation would be nearly three times the $150 million currently appropriated for the program in fiscal year 1993.

Long-term Expansions

The investment package also includes several housing program expansions. It would increase the number of low-income households receiving rental subsidies through Section 8 certificates and vouchers to help them afford housing in the private rental market. Under these subsidies, low-income tenants generally pay a portion of the rental cost for a modest apartment, with the rest of their rent being subsidized. The number of additional low-income households provided certificates or vouchers each year (beyond those already receiving such assistance) would gradually expand from 40,000 households in fiscal year 1993 to 100,000 in fiscal year 1998.

The budget would also increase the funds to renovate privately-owned but federally subsidized housing that is deteriorating and provide additional funds to renovate severely distressed public housing. Those funds would be targeted at the most dilapidated public housing projects. The budget also contains a small increase in the Community Development Block Grant. After a one-time increase in fiscal year 1993 from its current level of $4 billion to $6.5 billion, the funding level for the

Table V
How Housing Programs Fare Compared to FY 1993 Levels,
Adjusted for Inflation
(does not include the stimulus package)

	FY 1994	Total FY 1994-98
	(in millions of dollars; all figures represent appropriations levels)	
Expansions		
Community Development Block Grant	$90	$690
Supportive Housing for the Homeless	180	1,380
Preservation of Assisted Housing	546	4,130
Housing Certificates and Vouchers	357	6,823
Crime in Public Housing Initiative	90	690
Severely Distressed Public Housing Initiative	175	1,263
HOPE Youthbuild	48	368
Subtotal Expansions	1,486	15,344
Reductions		
FHA Mortgage Insurance Reforms	-98	-637
Eliminate Public Housing New Construction Cost Supplements	0	-269
Reduce Section 8 Loan Management Set-aside	-181	-886
Eliminate HUD Special Purpose Grants	-268	-1,438
Modify Administrative Fees for Public Housing Authorities	-6	-84
Limit Maximum Preservation Subsidy	-91	-675
Consolidate New Construction of Public Housing, and New Construction of Elderly & Disabled Housing into the HOME program	-1,109	-5,949
HUD "Streamlining" Savings*	-478	-3,547
Subtotal Reductions	-2,231	-13,485
Total Program Changes	-745	1,859

* These savings are unspecified at the present time.

program would drop closer to the $4 billion level, but with some modest increase above it. Funding for the Supportive Housing Program for the Homeless would also rise. From a $150 million level in fiscal year 1993 (before the stimulus package), the funding level would rise to more than $300 million in fiscal year 1994 and more than $450 million in fiscal year 1995 and subsequent years.

Finally, the budget includes funds for an initiative to reduce crime in public housing projects and increases funds for Youthbuild, a relatively new program that trains high school dropouts in housing construction and employs them to build low-income housing.

Housing Cuts

The largest cuts would come from eliminating new construction of public housing and terminating two other programs that support construction of housing for the low-income elderly and disabled. The budget would consolidate these programs into the HOME program; funding for HOME would be raised from $1 billion in fiscal year 1993 to $2.2 billion starting in fiscal year 1994. State and local governments would be permitted to use HOME funds for the type of housing construction and rehabilitation activities now carried out under the terminated programs if they chose to do so.

The net result of the elimination of these three programs and the expansion of HOME, however, would be a reduction in overall housing funds of $1.1 billion next year and $5.9 billion over five years. Moreover, the loss in support for the lowest income households is likely to be somewhat greater than that, because the three terminated programs are targeted on poor families and individuals while the HOME program is likely to concentrate on those at somewhat higher income levels.

The budget also achieves some savings by placing a new limit on the amount of subsidy that can be provided to private owners of subsidized housing projects for which the current subsidies are drawing to an end. Such subsidies are intended to induce these owners to enter into new long-term contracts to keep their housing affordable for their low-income tenants. The subsidy limitations the budget proposes may cause some owners to decline to enter into new contracts and instead to convert their buildings to other uses, such as higher-priced housing that yields a greater profit. Where this occurs, current low-income tenants could be displaced. Despite this limitation, the funds provided to private owners of subsidized housing projects whose current subsidies are expiring would increase under the budget; this is because the number of projects that reach the end of their current subsidy and begin to receive additional subsidies is expected to be larger in coming years than it was in fiscal year 1993.

The budget also would lower the fees HUD pays to public housing authorities to administer Section 8 certificates and vouchers and eliminate HUD "special purpose grants," which are grants earmarked for particular projects in Congressional appropriations bills. Additional savings, for which details are not yet available, would come from "streamlining" HUD operations.

VIII. Budget Process Reforms

The Clinton budget plan does not propose major changes in existing budget rules and procedures. A number of key budget process rules are set to expire at the end of 1995; and the Administration's budget would extend them. Specifically, the Administration would continue the practice of setting caps on total funding for non-entitlement (or "discretionary") programs and would also extend the "Pay-As-You-Go" provisions which require that any future changes in tax or entitlement programs not add to the deficit. The Clinton budget also reiterates the Administration's support for "enhanced rescission authority," which would require a timely Congressional vote on Presidential proposals to rescind funding for particular items in appropriations acts.

Extending Discretionary Caps

The Budget Enforcement Act of 1990 established caps on discretionary spending. For fiscal years 1991 through 1993, separate caps were established for defense, domestic and international discretionary spending. Starting in fiscal year 1994, all discretionary spending will be under one set of overall caps. For each year, there is one cap on "budget authority" (or appropriations) and another cap on actual spending (or outlays). The Clinton Administration budget appears to comply with the budget authority caps for fiscal years 1994 and 1995, but to exceed the outlay caps. The Administration is expected to provide more information on this issue at a later date. The Administration is also expected to propose the establishment of new discretionary caps for fiscal years 1996, 1997, and 1998. These would be overall caps covering defense, domestic, and international programs combined and would be set

at levels that would accommodate the amounts of discretionary spending proposed in the Clinton budget, but no more than that.

As at present, the caps on discretionary programs would be enforced by the threat of a sequester in such programs. If the cap for a year were breached, there would be an across-the-board sequester of appropriations for all discretionary programs.

Extending the "Pay-As-You-Go" Rules

Under the current "pay-as-you-go system," any changes to tax or entitlement provisions must be deficit-neutral. In other words, any entitlement increases or tax cuts have to be offset fully by either entitlement reductions or tax increases. If OMB determines that the changes in entitlements and taxes in a given year are not fully paid for, a comprehensive sequester cutting entitlement programs is triggered.

The Clinton plan proposes to extend the pay-as-you-go provisions through 2003. This is essential to the Clinton budget plan. Under the plan, various spending cuts and tax increases phase in or otherwise take full effect in fiscal years after 1994. If the Clinton budget were to pass this year but the pay-as-you-go rules were not extended, pressures would mount next year for Congress to repeal various spending cuts or tax increases before they took effect. The pay-as-you-go rules should ensure that no such action can be taken unless it is deficit-neutral. Extending these rules thus is critical to the credibility of the Clinton plan.

How the Current Rules Have Worked

The current rules regarding discretionary caps and "pay-as-you-go" have worked well, in the sense that the discretionary caps have been adhered to and the "pay-as-you-go" rules have prevented the enactment of new tax cuts or entitlement increases that are not "paid for." Extending these rules seems sound.

Enhanced Rescission Authority

The Administration also supports what is known as enhanced rescission authority. Under current law, the President may propose to "rescind" (that is, to cancel) appropriations for particular items of discretionary spending contained in appropriations acts. Congress may, however, decline to act on these rescission requests.

The Administration's proposal to grant the President "enhanced rescission authority" would require that there be a vote on the House and Senate floors on all rescission proposals the President submits. If a majority of either house voted against a rescission request, the request would die; if a majority of both houses voted for it, the rescission would occur. Under such a procedure, a larger proportion of Presidential requests to cancel particular funding items is likely to pass than at present.

Supporters of this proposal argue it will enable the Executive Branch to reduce "pork barrel" spending. Opponents fear it would shift too much power to the Executive Branch and give the White House a new tool to press Members of Congress on other matters. (For example, the White House could threaten to rescind funding for a project in a particular Member's district if the Member did not support the President on another vote of importance to the White House such as a court nomination or a treaty.)

IX. Conclusion

The year 1993 will be a critical juncture in federal policy-making, just as 1981 was. The Reagan budget and economic program adopted in 1981 altered the nation's course. Its effects are still strongly felt. If adopted, the Clinton 1993 program could also have a profound effect.

Opportunities to make such large changes in national policy rarely arise more than once in a decade. The opportunity to change direction in the manner proposed in the Clinton budget will, in all likelihood, largely disappear if not acted upon this year.

The principal alternatives are quite different from the Clinton program. They include continued gridlock and little action on either the deficit or other unmet needs; an alternative deficit reduction plan that does little to increase long-term public investment in areas such as infrastructure, education and training, and children's programs and that makes the social deficit greater rather than smaller; and a resort to "budget process" plans such as balanced budget amendments and "entitlement caps" instead of tough decisions on what spending to cut and what taxes to increase. In the end, any alternative deficit reduction route adopted this year in lieu of the Clinton plan is likely to have less new revenue, less new public investment, and larger reductions in social programs, including those targeted on poor families and individuals.

The decisions made this year will be momentous. They may establish the fiscal and policy framework within which the nation operates for the remainder of the decade.

Appendix Tables

The following tables are reprinted from the Clinton administration's budget document, *A Vision of Change in America,* issued February 17, 1993. Table 1 lists the Administration's five-year investment proposals. (The stimulus proposals are not included.) Table 2 lists the proposed changes in mandatory — or entitlement — programs. Table 3 shows the proposed reductions in non-defense discretionary programs.

The figures in the tables reflect proposed changes in actual spending, or outlays. Figures for the Administration's proposed appropriations levels for these programs are not yet available. They will be included with the President's complete budget, scheduled for release on April 5.

In addition, the last column in each of the tables shows the total increase or decrease proposed over the four-year period from fiscal year 1994 through fiscal year 1997. In contrast, the Center's analysis follows the more traditional approach of focusing on *five-year* totals, which include fiscal year 1998.

TABLE 1. INVESTMENT PROPOSALS

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
REBUILD AMERICA—INFRASTRUCTURE						
Transportation:						
Federal-aid highway program	402	1,736	1,847	1,631	1,402	5,616
Smart cars/smart highways (part of Federal-aid highway obligations)	(70)	(85)	(90)	(100)	(100)	(345)
Mass transit formula capital grants	23	149	398	639	864	1,209
High-speed rail and MAGLEV	27	140	221	258	305	646
Alcohol-related highway safety and other transportation capital	11	37	65	88	98	201
Airport improvement program	5	22	36	44	47	107
Air traffic control modernization	24	69	111	140	161	344
Public land highways and Indian reservation roads	5	38	99	153	200	295
High-speed rail bonds (tax incentive)	.....	1	4	11	20	16
Subtotal, Transportation	497	2,192	2,781	2,964	3,097	8,434
Environment:						
Drinking water state revolving funds (EPA)	24	172	440	692	840	1,328
Clean water state revolving funds (EPA)	54	344	900	1,402	1,666	2,700
Safety of dams on Indian reservations (Interior)	4	12	20	23	23	59
Water resources development (Corps of Engineers)	77	147	160	160	160	544
Watershed resource restoration (EPA)	15	34	43	47	49	139
Environmental restoration and waste management (DOE)	8	35	70	107	146	220
Forests for the Future (USDA)	24	46	50	50	50	170
Weather service modernization (NOAA)	84	86	70	50	−16	290
Environmental technology (EPA)	14	46	84	127	175	271
Green programs (EPA)	5	16	23	25	25	69
Natural resource protection and environmental infrastructure (Interior and USDA)	167	384	471	509	538	1,531
Tree planting initiative (USDA)	33	64	73	76	79	246
National research initiative grants (USDA)	2	16	60	110	160	188
Forestry research initiative (USDA)	16	56	84	105	122	261
Subtotal, Environment	527	1,458	2,548	3,483	4,017	8,016
Rural Development Initiative:						
Rural water and waste water loans and grants (USDA)	6	42	107	176	207	331
Business and community initiative (USDA)	105	240	356	454	544	1,155
Subtotal, Rural Development Initiative	111	282	463	630	751	1,486
Energy:						
Alternative fuels vehicles	18	30	30	30	30	108
Energy efficiency in Federal buildings	49	152	270	329	342	800
Increase weatherization grants (DOE)	18	63	94	100	100	275
Close-out costs for DOE reactors	18	8	9	3	1	38
Energy conservation and renewable energy programs (Energy Policy Act)	48	168	304	420	520	940
Natural gas research and development: Emphasize utilization.	5	25	55	90	112	175
Advanced neutron source	11	50	116	243	439	420
Fusion energy research	9	39	72	90	95	210
Subtotal, Energy	176	535	950	1,305	1,639	2,966

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TABLE 1. INVESTMENT PROPOSALS—Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Community Development and Defense Conversion:						
Community development block grant (CDBG)	4	41	100	137	148	282
Office of Economic Adjustment for defense reinvestment and transition	9	17	20	20	20	66
Economic Development Administration for defense reinvestment and transition	3	16	33	44	53	96
Enterprise zones (tax incentive)	73	347	772	1,228	1,699	2,420
Community development banks	45	93	106	110	114	354
Subtotal, Community Development and Defense Conversion	134	514	1,031	1,539	2,034	3,218
Technology and Business Reinvestment and Defense Conversion:						
NASA civil aviation	36	121	171	222	267	550
NASA short-haul aircraft research	3	10	17	20	20	50
Dual-use technology for defense reinvestment and transition (DOD)	133	322	420	456	480	1,331
Federal Coordinating Council for Science, Engineering, and Technology (research initiatives)	100	266	383	457	514	1,206
Crosecutting high performance computing (NSF, NIH, NASA, and NIST)	53	158	253	320	362	784
National Inst of Standards and Technology growth	56	219	403	628	805	1,306
National labs (non-defense)	14	35	47	50	50	146
Information highways (Commerce)	6	42	98	129	150	275
National Science Foundation	134	451	758	954	1,100	2,297
Government automation and efficiency	204	652	850	943	735	2,649
Extend R&E tax credit (tax incentive)	1,207	1,503	1,750	1,977	2,200	6,437
Subtotal, Technology and Business Reinvestment and Defense Conversion	1,946	3,779	5,150	6,156	6,683	17,031
Housing:						
100% vouchers (100,000 units)	7	65	222	422	654	716
Preservation and restoration of assisted housing	37	155	282	384	519	858
Supportive housing program	.....	22	81	136	183	241
Mortgage revenue bonds (tax incentive)	104	145	160	172	174	581
Extend low-income housing tax credit (tax incentive)	214	478	791	1,114	1,442	2,597
Real estate investment (tax incentive)	254	387	164	17	-158	822
Urban Partnership Against Crime	6	52	116	138	133	312
Severely distressed public housing	.....	17	68	121	167	206
HOPE youthbuild	.....	5	19	34	48	58
Subtotal, Housing	622	1,326	1,903	2,540	3,162	6,391
SUBTOTAL, TAX INCENTIVES	1,852	2,861	3,641	4,519	5,377	12,873
SUBTOTAL, SPENDING INCENTIVES	2,161	7,225	11,185	14,098	16,006	34,669
TOTAL, REBUILD AMERICA	4,013	10,086	14,826	18,617	21,383	47,542

TABLE 1. INVESTMENT PROPOSALS—Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
LIFELONG LEARNING						
WIC (Special supplemental food program for women, infants, and children)	318	532	800	984	1,000	2,634
Parenting and Family Support	40	85	230	495	600	850
Head Start	932	1,886	2,790	3,676	4,562	9,284
Child Care and Development Block Grant	30	95	145	200	250	470
Education Reform and Initiatives	206	1,043	2,206	2,697	3,083	6,152
Employer Provided Education Assistance (tax incentive)	425	458	492	528	565	1,903
National Service	98	1,042	1,890	3,000	3,400	6,030
Worker Training Initiatives:						
Dislocated Worker Assistance Act (for NAFTA, Defense Reinvestment and Transition, Energy Conversion, and Trade Adjustment)	60	879	1,699	1,960	2,000	4,598
Job Corps: adopt "50–50 plan"	11	32	96	202	344	341
Job Corps: eliminate maintenance backlog	7	20	32	45	50	104
JTPA, summer youth employment and training	247	540	625	625	625	2,037
One-stop career shopping	30	170	250	250	250	700
Older Americans employment	4	22	34	35	35	95
Youth apprenticeship	32	243	448	495	500	1,218
Worker profiling	6	3	.....	.....	.....	9
Targeted jobs tax credit (tax incentive)	170	327	406	496	605	1,399
Subtotal, Worker Training Initiatives	567	2,236	3,590	4,108	4,409	10,501
SUBTOTAL, TAX INCENTIVES	595	785	898	1,024	1,170	3,302
SUBTOTAL, SPENDING INCENTIVES	2,021	6,592	11,245	14,664	16,699	34,522
TOTAL, LIFELONG LEARNING	2,616	7,377	12,143	15,688	17,869	37,824
REWARDING WORK						
Earned income tax credit (tax incentive)	525	6,228	6,445	6,662	6,927	19,860
Extension of unemployment compensation	2,400	.....	.....	.....	.....	2,400
Crime Initiative, including Community Policing, Criminal Records Upgrades, and Police Corps	210	521	725	842	918	2,298
Equal Employment Opportunity Commission	10	17	18	18	18	63
SUBTOTAL, TAX INCENTIVES	525	6,228	6,445	6,662	6,927	19,860
SUBTOTAL, SPENDING INCENTIVES	2,620	538	743	860	936	4,761
TOTAL, REWARDING WORK	3,145	6,766	7,188	7,522	7,863	24,621
HEALTH CARE						
AIDS, women's health, immunizations, NIH research, and other public health initiatives	346	1,660	2,806	3,370	4,251	8,182
AIDS—Ryan White Act	60	192	305	392	445	949
Substance abuse prevention and treatment	46	207	456	797	933	1,506
Food safety initiative (USDA) and emergency food assistance	54	98	101	102	103	355
Food Stamps	1,000	2,000	3,000	3,000	3,000	9,000
Low-income Home Energy Assistance Program	.....	316	649	982	998	1,947

TABLE 1. INVESTMENT PROPOSALS—Continued

(In millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Rural Health Initiative	50	55	10			115
VA medical care	279	663	733	800	861	2,475
Improving disability insurance processing	120	200	200	200	200	720
Health Insurance Deduction for Self-employed (tax incentive)	313					313
SUBTOTAL, TAX INCENTIVES	313					313
SUBTOTAL, SPENDING INCENTIVES	1,955	5,391	8,260	9,643	10,791	25,249
TOTAL, HEALTH CARE	2,268	5,391	8,260	9,643	10,791	25,562
PRIVATE-SECTOR INCENTIVES						
Investment Tax Incentives:						
Targeted capital gains exclusion (tax incentive)	12	93	155	207	247	467
Earned income tax credit (EITC) (tax incentive)	(525)	(6,228)	(6,445)	(6,662)	(6,927)	(19,860)
Mortgage revenue bonds (tax incentive)	(104)	(145)	(160)	(172)	(174)	(581)
High-speed rail bonds (tax incentive)		(1)	(4)	(11)	(20)	(16)
Extend R&E tax credit (tax incentive)	(1,207)	(1,503)	(1,750)	(1,977)	(2,200)	(6,437)
Extend low-income housing tax credit (tax incentive)	(214)	(478)	(791)	(1,114)	(1,442)	(2,597)
Small business investment tax credit (tax incentive)	2,795	3,133	3,027	3,309	3,501	12,264
Alternative minimum tax depreciation preference (tax incentive)	188	307	396	404	273	1,295
Temporary incremental investment tax credit (tax incentive)	6,399	3,584	107	-961	-572	9,129
Small issue manufacturing bonds (tax incentive)	14	28	35	37	37	114
Alternative minimum tax exception for gifts of appreciated property (tax incentive)	70	73	75	77	79	295
Railroad retirement fund transfer (tax incentive)						
Small business credit availability	60	131	153	157	160	501
SUBTOTAL, TAX INCENTIVES	9,478	7,218	3,795	3,073	3,565	23,564
SUBTOTAL, SPENDING INCENTIVES	60	131	153	157	160	501
TOTAL, PRIVATE-SECTOR INCENTIVES	9,538	7,349	3,948	3,230	3,725	24,065
TAX INCENTIVES, ALL CATEGORIES	12,763	17,092	14,779	15,278	17,039	59,912
SPENDING INCENTIVES, ALL CATEGORIES	8,817	19,877	31,586	39,422	44,592	99,702
TOTAL, ALL CATEGORIES	21,580	36,969	46,365	54,700	61,631	159,614

TABLE 2. PROPOSED CHANGES TO MANDATORY PROGRAMS

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
ELIMINATING SUBSIDIES: CHARGING FEES FOR GOVERNMENT SERVICES						
Energy:						
Reform Power Marketing Administration	.....	.....	-100	-100	-100	-200
Natural Resources and Environment:						
Phase-in increased Inland Waterway user fees	-35	-115	-210	-460	-460	-820
Increase grazing fees: Agriculture Department	-2	-5	-8	-13	-19	-28
Increase grazing fees: Interior Department	-4	-8	-14	-22	-32	-48
Implement a Federal irrigation water surcharge	-10	-10	-10	-15	-15	-45
Increase recreation fees: Corps of Engineers	-18	-18	-18	-18	-18	-72
Increase recreation fees: Interior Department	-29	-34	-39	-45	-50	-147
Increase recreation fees: Agriculture Department	-10	-11	-12	-13	-13	-48
Permanently extend hardrock mining holding fees	-80	-80	-80	-80	-80	-320
Institute hardrock mining royalties	.....	-63	-131	-277	-277	-471
Improve enforcement of harbor maintenance fees	-10	-25	-65	-65	-65	-165
Permanently extend 50% net receipt sharing (on-shore minerals)	-40	-42	-43	-45	-47	-170
Below-cost timber sales (loss of receipts)	38	48	58	58	58	202
Agriculture:						
Eliminate subsidies to honey producers	-12	-10	-6	-4	-3	-32
Target CCC subsidies to farmers with off-farm incomes below $100,000	-75	-115	-140	-140	-140	-470
Increase non-eligible payment acres (triple base) starting in 1996	.....	.....	-310	-720	-720	-1,030
Eliminate 0/92 and 50/92 (PAY/92) programs starting in 1996	.....	.....	-273	-664	-640	-937
Increase assessments on "non-program" crops starting in 1996	.....	.....	-450	-450	-450	-900
Limit payments on wool and mohair to $50 thousand per person	-10	-68	-68	-66	-66	-212
Permanently extend market promotion program at 1993 level	-52	-52	-52	-52	-52	-208
Commerce and Housing Credit:						
Assess examination fees for State-chartered, FDIC-insured banks	-255	-265	-275	-286	-297	-1,081
Institute Commodity Futures Trading Commission processing fees (revenue)	-55	-57	-60	-63	-66	-235
Increase Securities and Exchange Commission registration fees (revenue)	-44	-48	-48	-50	-52	-188
Permanently extend patent and trademark fees	.....	.....	-111	-115	-120	-226
Transportation:						
Increase registration fee on general aviation aircraft	-18	-31	-44	-56	-60	-151
Permanently extend tonnage fees	.....	.....	-67	-68	-70	-135
Health:						
Complete payment of outstanding postal liabilities: FEHB portion	.....	-116	-116	-116	.....	-348
Income Security:						
Charge fee for State SSI administration	-50	-110	-180	-180	-190	-520

TABLE 2. PROPOSED CHANGES TO MANDATORY PROGRAMS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Administration of Justice:						
Permanently extend U.S. Customs merchandise and passenger processing fees			-564	-579	-597	-1,143
Undistributed Offsetting Receipts:						
Auction Federal Communications Commission spectrum		-374	-1,623	-2,083	-340	-4,080
Complete payment of outstanding postal liabilities: Cost-of-living adjustments for retirees		-231	-231	-231		-693
Subtotal, Eliminating Subsidies: Charging fees for Government Services	-771	-1,838	-5,290	-7,020	-4,981	-14,919
MANAGING GOVERNMENT FOR COST-EFFECTIVENESS AND RESULTS						
Agriculture:						
Reform crop insurance program through area-yield (mandatory savings)		-238	-246	-255	-264	-739
Reform commodity disaster payments						
Commerce and Housing Credit:						
Government National Mortgage Association: Real estate mortgage insurance conduits	-146	-146	-146	-146	-146	-584
Reform Federal Housing Administration insurance	-28	-66	-78	-81	-83	-253
Education, Training, Employment, and Social Services:						
Reform student loan program	171	213	-378	-1,343	-1,833	-1,337
Require States to share default costs	-80	-122	-126	-131	-137	-459
Income Security:						
Conform CSRS/FERS child-survivor benefits age to Social Security	-5	-10	-15	-20	-25	-50
Base CSRS/FERS survivor annuities on reduced retiree annuity	-35	-70	-105	-140	-175	-350
Veterans Benefits and Services:						
Restore 1:9 contribution ratio for GI Bill benefits	-68	-83	-90	-98	-108	-339
Implement housing down-payment for second and subsequent uses	-17	-17	-17	-17	-17	-68
Pay insurance administration from excess funds	-25	-28	-29	-31	-32	-113
Set housing loan fees at 2%	-153	-155	-155	-157	-165	-620
Permanently extend pensions-medicaid nursing homes provisions					-300	
Permanently extend pension/medical care income verification through Internal Revenue Service					-197	
Permanently extend medical care costs recovery	-46	-326	-391	-407	-425	-1,170
Permanently extend prescription charge/co-payment					-42	
Permanently extend resale loan loss provisions	-19	-20	-20	-21	-22	-80
Administration of Justice:						
Reform U.S. Customs overtime	-18	-18	-18	-18	-18	-72
General Government:						
Implement Commonwealth of the Northern Mariana Islands funding agreement	-6	-7	-8	-10	-12	-31
Net Interest:						
Shorten maturity of debt securities	-1,634	-2,660	-3,264	-3,919	-4,877	-11,477

TABLE 2. PROPOSED CHANGES TO MANDATORY PROGRAMS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Other:						
FTE cut—offsets—employer contributions	115	269	284	310	320	978
FTE cut—offsets—employee contributions	29	67	71	77	80	244
Pay reduction—related employee contributions	71	95	109	131	141	406
Increase revenues from IRS tax compliance efforts	-11	-74	-297	-554	-601	-936
Subtotal, Managing Government for Cost-effectiveness and results	-1,905	-3,396	-4,919	-6,830	-8,938	-17,050
CONTROLLING HEALTH CARE COSTS						
Health:						
Institute Medicare fee limits over 65: Federal Employees Health Benefits	-12	-18	-21	-24	-27	-75
Medicaid: Eliminate mandatory medicaid care		-1,190	-1,355	-1,540	-1,760	-4,085
Medicaid: Tighten estate asset rules	-25	-80	-135	-155	-170	-395
Medicaid: Remove prohibition on drug formularies	-10	-15	-20	-25	-30	-70
Medicare:						
Pay hospitals for inpatient services by hospital-based physicians		-80	-150	-160	-180	-390
Put hospitals on a calendar year update	-1,000	-1,140	-1,180	-1,290	-1,420	-4,610
Gradually lower indirect medical education rate to 5.65%			-580	-1,360	-1,600	-1,940
Set laboratory rates at market levels	-390	-690	-890	-1,120	-1,390	-3,090
Eliminate skilled nursing facility return on equity payments	-110	-140	-150	-160	-170	-560
Durable medical equipment—options	-75	-125	-150	-160	-175	-510
Set erythropoietin (EPO) at non-U.S. market rates ($10 per 1000 units)	-30	-40	-40	-50	-50	-160
Medicare secondary payor (MSP) reforms	-127	-240	-275	-305	-345	-947
Eliminate add-on for hospital based home health agency	-160	-200	-230	-250	-280	-840
Phase-in resource-based practice expense	-100	-350	-700	-875	-950	-2,025
Implement single fee for surgery	-50	-100	-110	-120	-130	-380
Discount for interactions	160	200	490	940	1,410	1,790
Reduce hospital update market basket minus 1% in 1994 and 1995	-550	-1,380	-1,580	-1,700	-1,860	-5,190
Permanently extend 10% capital reduction, outpatient department			-110	-150	-170	-260
Permanently extend 2% laboratory fee update	-30	-110	-220	-380	-570	-740
Permanently extend 10% capital reduction, Prospective Payment System neutral			-300	-380	-420	-680
Permanently extend Medicare Secondary Payer (MSP) for the disabled			-650	-960	-1,085	-1,610
Permanently extend MSP for End Stage Renal Disease after 18 months			-35	-35	-35	-70
Permanently extend Internal Revenue Service/Social Security Administration/Health Care Financing Administration data match			-45	-120	-205	-165
Permanently extend reduction of payments for hospital outpatient services by 5.8%			-425	-525	-600	-950
Third party liability—Enhance identification of other health coverage		-150	-250	-400	-450	-800
Direct medical education	-350	-340	-340	-330	-320	-1,360

TABLE 2. PROPOSED CHANGES TO MANDATORY PROGRAMS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Ban physician self referrals		-50	-100	-100	-100	-250
Reduce default Medicare volume performance and update			-200	-650	-1,225	-850
Reduce doctor fees in 1994 except primary care	-200	-300	-350	-400	-425	-1,250
Provide electronic billing incentive			-90	-175	-175	-265
Outpatient department cut at 10%			-315	-375	-425	-690
Medicare—Maintain 1995 ratio of premium collections to program outlays with a 27% ceiling			-1,145	-3,870	-6,560	-5,015
Subtotal, Controlling Health Care Costs	-3,059	-6,538	-11,631	-17,204	-21,892	-38,432
SHARED CONTRIBUTION						
Health:						
Medicaid: Equate matching rates for welfare program	-160	-400	-440	-490	-540	-1,490
Social Security:						
Retain Social Security threshold and tax 85% (revenue)	-2,700	-5,600	-6,200	-6,900	-7,700	-21,400
Income Security:						
Strengthen child support enforcement	-27	-80	-112	-109	-177	-328
Equate matching rates for welfare program	-40	-80	-90	-90	-90	-300
End lump-sum benefit			-2,100	-3,032	-3,197	-5,132
Subtotal, Shared Contribution	-2,927	-6,160	-8,942	-10,621	-11,704	-28,650
TOTAL, PROPOSED ENTITLEMENT SAVINGS	-8,662	-17,932	-30,782	-41,675	-47,515	-99,051
MEMORANDUM:						
Revenue items included above	-2,755	-5,755	-6,700	-7,884	-8,723	-23,094

TABLE 3. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
PROGRAMS THAT DON'T WORK OR ARE NO LONGER NEEDED						
Commerce:						
Eliminate Trade Adjustment Assistance for firms	-1	-5	-10	-14	-14	-30
Reduction in Export Administration workload	-6	-7	-7	-7	-7	-27
Health and Human Services:						
Fund priority health professions curriculum assistance grants	-14	-21	-25	-27	-29	-87
State:						
Eliminate Russia/Eurasia research	-1	-8	-10	-10	-11	-29
Environmental Protection Agency:						
Completion of wastewater treatment grants authorization (except NAFTA)	-109	-624	-1,424	-1,947	-2,207	-4,104
Appalachian Regional Commission:						
Freeze Appalachian Regional Commission	-1	-2	-6	-11	-12	-20
Community Investment Program:						
Reforms in light of new crime initiative		-211	-411	-532	-550	-1,154
State Justice Institute:						
Terminate State Justice Institute	-3	-15	-16	-17	-17	-51
Tennessee Valley Authority:						
Terminate TVA fertilizer and community development	-42	-46	-50	-50	-52	-188
Multi-Agency:						
Eliminate unnecessary nuclear reactor R&D	-97	-198	-257	-268	-279	-820
Terminate commissions	-9	-10	-11	-11	-11	-41
Subtotal, Programs That Don't Work or are No Longer Needed	-283	-1,147	-2,227	-2,894	-3,189	-6,551
ELIMINATING SUBSIDIES: CHARGING FEES FOR GOVERNMENT SERVICES						
Agriculture:						
Reduce Rural Electrification Administration 5-percent loan subsidies	-27	-77	-120	-150	-171	-374
Expand certain agriculture user fees	-14	-14	-15	-16	-16	-59
Eliminate Cooperative State Research Service (CSRS) earmarked research grants	-4	-18	-32	-42	-46	-96
Eliminate CSRS earmarked facilities construction	-3	-7	-32	-44	-60	-86
Eliminate earmarked special extension grants	-13	-13	-14	-14	-15	-54
Eliminate Agricultural Research Service earmarked facilities construction	-1	-6	-7	-10	-10	-24
Meat/Poultry fees: Reimbursement for overtime	-104	-104	-104	-104	-104	-416
Commerce:						
Terminate NOAA demonstration projects	-30	-55	-65	-70	-73	-220
Corps of Engineers:						
Reduce construction funding for lower priority water projects	-85	-70	-30	-50	-15	-235
Energy:						
Assess foreign customers decommissioning and decontamination fee (receipts)	-10	-10	-11	-11	-12	-42
Health and Human Services:						
Increase FDA user fees	-167	-230	-285	-336	-387	-1,018

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TABLE 3. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Housing and Urban Development:						
Eliminate special purpose grants	-5	-73	-209	-278	-288	-565
Interior:						
Reduce construction funding for lower priority water projects	-18	-40	-63	-42	-23	-163
Transportation:						
Eliminate low priority Transportation programs and projects	-129	-337	-438	-428	-417	-1,332
Treasury:						
Establish a Bureau of Alcohol, Tobacco, and Firearms user fee	-5	-5	-5	-5	-5	-20
Small Business Administration:						
Eliminate SBA earmarked grants	-44	-71	-90	-110	-116	-315
Securities and Exchange Commission:						
Increase SEC Registration Fees	-47	-50	-52	-54	-56	-203
Subtotal, Eliminating Subsidies: Charging Fees for Government Services	-706	-1,180	-1,572	-1,764	-1,814	-5,222
MANAGING GOVERNMENT FOR COST-EFFECTIVENESS AND RESULTS						
Agriculture:						
Reduce Enterprise for the Americas debt forgiveness (P.L. 480)	-6	-17	-20	-36	-38	-79
Reduce development-oriented foreign food aid	-30	-63	-72	-81	-90	-246
Phase out below-cost timber sales (Forest Service)	-46	-59	-83	-86	-86	-274
Implement one new Farm Service Organization	-65	-139	-219	-307	-403	-730
Reform crop insurance through area-yield	-105	-110	-165	-171	-177	-551
Reduce Economic Research Service programs	-12	-16	-16	-17	-18	-61
Reduce Foreign Agriculture Service programs	-5	-10	-10	-10	-10	-35
Reduce direct ACIF farm loans 25%; replace with guarantees	-3	-8	-10	-10	-11	-31
Education:						
Reform campus-based aid	-20	-198	-239	-275	-312	-732
Phase out impact aid "b"	-39	-86	-134	-145	-149	-404
Energy:						
Stretchout Superconducting Super Collider	108					108
Implement uranium enrichment initiative	-241	-274	-374	-386	-340	-1,275
Reduce Strategic Petroleum Reserve fill by one-third	-55	-58	-22	37	39	-98
Housing and Urban Development:						
Eliminate public housing new construction amendments			-7	-36	-58	-43
Modify fees Federal housing	-40	-85	-136	-193	-204	-454
Reforming low-income housing preservation	-5	-15	-37	-58	-80	-115
Consolidate several HUD housing programs into HOME	-1	29	-56	-150	-474	-178
Justice:						
Reduce prison construction	-7	-40	-103	-181	-249	-331
Transportation:						
Maintain level Federal Aviation Administration (Operations)	-55	-62	-62	-62	-62	-241
Adjust Coast Guard for military pay	-29	-53	-69	-86	-99	-237
Veterans Affairs:						
Reform major construction	-7	-46	-95	-134	-152	-282
Improve management of VA hospitals	-100	-200	-300	-400	-500	-1,000

TABLE 3. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
Environmental Protection Agency:						
Increase private sector Superfund financing	-31	-73	-95	-109	-118	-308
National Aeronautics and Space Administration:						
Redesign Space Station and invest in new technology	203	662	625	636	510	2,126
Small Business Administration:						
Reduce 7(a) business loan subsidies	-58	-113	-116	-118	-121	-405
Board for International Broadcasting:						
Consolidate overseas broadcasting	-60	-59	-281	-244	-250	-644
Executive Office of the President:						
Cut White House and Office of National Drug Control Policy staff	-20	-32	-37	-40	-43	-129
Funds Appropriated to the President:						
Re-orient AID programs and reduce spending	-7	-84	-152	-257	-341	-500
Phase out defense acquisition fund	-23	-92	-138	-133	-86	-386
Reduce International Security Assistance	-84	-264	-504	-731	-943	-1,583
Reduce Enterprise for the Americas debt forgiveness (AID)	-8	-20	-34	-45	-54	-107
Export Import Bank of the United States:						
Reduce Export Import Bank credits	-3	-6	-39	-105	-148	-153
U.S. Information Agency:						
Russian Far East Technical Assistance Center	-2	-2	-2	-2	-2	-8
Terminate funding for North-South Center	-4	-9	-9	-10	-10	-32
Multi-Agency:						
Freeze other foreign assistance programs	-6	-14	-75	-95	-111	-190
Maintain current program level for programs in small agencies	-12	-30	-60	-92	-124	-194
No Federal Pay Raise CY94; ECI-Based Raise minus 1% CY1995–1997; revise locality pay beginning CY1995	-1,361	-1,963	-2,281	-2,741	-2,965	-8,346
Administrative Efficiencies:						
Cut 100,000 Federal employees	-932	-2,180	-2,306	-2,509	-2,591	-7,927
Other administrative savings	-676	-1,392	-2,169	-3,462	-3,553	-7,699
Reduce overhead rate on university R&D	-156	-330	-369	-383	-396	-1,238
Subtotal, Managing Government for Cost-Effectiveness and Results	-4,003	-7,511	-10,271	-13,227	-14,819	-35,012
STREAMLINING GOVERNMENT						
Agriculture	-38	-76	-96	-117	-139	-327
Education	-70	-318	-486	-620	-758	-1,494
Energy		-1	-3	-7	-12	-11
Health and Human Services	-199	-500	-832	-1,168	-1,512	-2,699
Housing and Urban Development	-104	-265	-443	-621	-822	-1,433
Justice	-25	-19	-38	-56	-73	-138
Labor	-2	-52	-105	-161	-215	-320
Transportation	-10	-25	-33	-44	-54	-112
Treasury	-33	-52	-63	-68	-73	-216
Veterans Affairs		-1	-3	-6	-10	-10
Corps of Engineers	-13	-34	-56	-77	-99	-180
Environmental Protection Agency	-10	-38	-70	-103	-137	-221
Other agencies	-100	-170	-230	-267	-292	-767
Subtotal, Streamlining Government	-604	-1551	-2,458	-3,315	-4,196	-7,928

TABLE 3. NON-DEFENSE DISCRETIONARY PROGRAM SAVINGS—Continued

(Outlays in millions of dollars)

	1994	1995	1996	1997	1998	1994–1997 Total
TECHNICAL ADJUSTMENTS						
Agriculture	-9	-10	-10	-10	-11	-39
Commerce	-30	-11	5	53	257	17
Education	66	122	131	135	134	454
Energy	214	.....	.....	-35	-144	179
Health and Human Services	-105	-91	-74	-61	-48	-331
Interior:						
Indian Land and Water Rights Claim Settlements	200	200	200	200	200	800
Other Interior programs	2	0	-4	-8	-10	-10
Justice	41	55	65	72	78	233
Labor:						
Unemployment Insurance administration workload adjustment	130	133	126	119	143	508
Other Labor programs	-54	-194	-265	-270	-281	-783
State	169	106	147	79	117	501
Transportation	104	122	127	135	144	488
Treasury:						
United States Customs	29	29	30	31	32	119
Fund additional IRS tax compliance efforts	143	156	163	171	178	633
Environmental Protection Agency	-15	-59	-95	-102	-104	-271
General Services Administration	-89	-90	-96	-222	-323	-497
Office of Personnel Management	3	9	8	5	9	25
Funds Appropriated to the President: International Affairs programs	236	469	533	580	540	1,818
Other agencies	83	250	131	110	97	574
Subtotal, Technical Adjustments	1,118	1,196	1,122	982	1,008	4,418
TOTAL, all categories	-4,478	-10,193	-15,406	-20,218	-23,010	-50,295

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